1 ◆ 9 ◆ 9 ◆ 1 MANITOBA BUDGET HIGHLIGHTS

THE HONOURABLE CLAYTON MANNESS
Minister of Finance
Province of Manitoba

DEAR FELLOW MANITOBANS:

Like all Manitobans, my Government colleagues and I are deeply concerned about the impact of the current recession on our province.

To meet that concern, this Budget is focused on attaining the Government's foremost goal of economic renewal.

Over the past three years, we have made steady progress in our efforts to improve the climate for economic development. We are committed to protecting those gains despite the serious fiscal challenge that lies before us.

This Budget is a further step in the Government's Fiscal Plan to provide our province with a much needed foundation for economic growth and prosperity.

All too often, government has served as a barrier to economic growth instead of as a partner. Our Government is determined to change that.

We have developed new approaches to budgeting that recognize the limits to how much government Manitobans can afford.

This Budget

- avoids major tax increases.
- keeps our deficit at a manageable level, and
- most important, ensures our limited tax dollars are spent on the highest priorities.

With this Budget, we continue making progress in establishing a more competitive economic climate to encourage investment and job creation.

This Government believes in Manitoba. We believe in our people. We are confident of Manitobans' ability to compete with the best in the world. And we'll do it right here in our own province.

Thank you for your interest in our Budget.

Clayton Manness

The Honourable Clayton Manness
Minister of Finance

HIGHLIGHTS

Keeping Taxes Down: There are no increases in personal income tax, retail sales tax, general business taxes, corporation income tax, corporation capital tax, or the payroll tax.

Priority Programs Protected: Overall spending is up $160 million, or 3.2%.

- an additional $90 million devoted to Health programs,
- $37 million extra for Family Services, and
- $23 million more for Education and Training.

Targetting Economic Incentives:

- New Small Business Tax Reduction Program extended to the end of 1992.
- A grant equal to 25% of investment, to supplement federal income tax incentives for mineral exploration in Manitoba.
- An employee ownership fund sponsored by Government and Labour to help Manitoba employees take an ownership position in their companies, thereby creating and saving jobs.

Tightening up Collections:

- Access to the New Small Business Tax Reduction Program tightened to focus on new businesses, as opposed to buyouts.
- A measure introduced to ensure more equitable access to payroll tax relief.
- Collection of corporation capital tax accelerated.

Revenue Measures: Additional revenue will be raised through:

- an increase of one cent per cigarette in the tobacco tax after May 31, 1991;
- an increase of 1.5 cents per litre in the gasoline tax after April 30, 1991;
- an increase of one cent per litre in the tax on diesel fuel after April 30, 1991; and
- an increase from five cents to ten cents per can in the Environmental Protection Tax levied on non-returnable beer cans, the same amount as the deposit on returnable cans.

VISION FOR RENEWAL

Renewal

The goal of this Government is long-term economic renewal by creating a climate to encourage:

- entrepreneurship,
- economic growth, and
- job creation.

Governments cannot succeed if their own finances are out of control.

Forward-looking, dynamic and challenging economies require a stable and competitive tax environment. In such an economy, disposable income drives growth through consumption, and capital investment drives growth through production.

The Challenge

The immediate challenge is to keep our province on course in extremely difficult and trying circumstances.

The three major fiscal challenges we must meet are:

- the increasing cost of servicing our debt,
- the effect of the recession, and
- reductions in federal transfers.

Debt and Interest Costs: Interest costs today account for 45 cents out of every dollar Manitobans pay in provincial personal income taxes compared to 19 cents in 1980/81.

The Impact of Recession: Canada is in the midst of a serious recession, with national unemployment running over 10%. Manitoba is also experiencing recession. Revenue from our own provincial sources is declining.

Federal Transfer Reductions: The Canadian Constitution guarantees federal transfer payments to promote equality of opportunity, economic development, and essential public services.

However, the federal government has unilaterally altered transfer arrangements, reducing funds that would otherwise flow to the provinces, affecting our ability to fund:

- health care,
- education, and
- other social services.

The federal government is also hurting Manitoba by attempting to pull back from its historic commitment to pay an adequate share of the costs in such areas as:

- agriculture,
- RCMP contracts, and
- social assistance for aboriginal people.

The Plan

In order to begin living within our means, the Provincial Government is taking an entirely different approach to evaluating public spending based on three main thrusts:

- internal reform,
- a revised estimates process, and
- moderation in public sector negotiations.

Internal reform is a long-term strategy which focuses on the key results government should achieve. Innovations in service delivery ensure that a larger proportion of tax dollars goes to actual services instead of administrative overhead.

The new estimates process allows the Government to make decisions about taxes and the deficit first, and then make spending decisions based on what the Province can afford. By focusing on four broad sectors (human services; sustainable development; community development; and management and reform), the process ensures the remaining funds are directed toward priority programs.

Public sector wage negotiations. In most areas of public services, salaries make up about 80% of the costs. In order to preserve jobs and services, costs must be kept affordable to taxpayers.

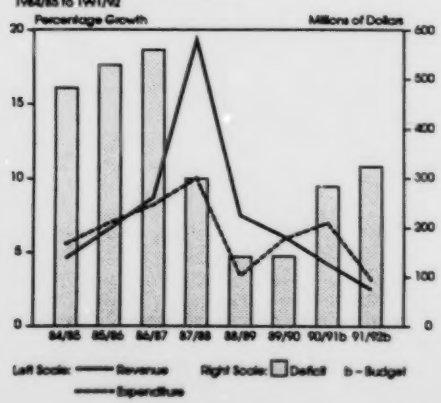
MANITOBA'S FISCAL POSITION

Spending on the basic priority areas of health care, education, and family services has been increased. Yet overall spending growth has been cut roughly in half from the 10% annual average growth under the former administration.

For five years the previous administration incurred high deficits. During the first two years of our Administration, growing revenue and greater control over spending let us cut the deficit by over 70%. During the current economic downturn, however, slow revenue growth has been aggravated by federal cutbacks. Although we have slowed expenditure growth, revenue has grown less rapidly than spending. As a result, we face a higher deficit for the second year running.

We are adhering to a fiscally responsible plan, which is essential if we are to stop debt and interest costs from rising. This will protect our capacity to provide priority public services in the future.

Summary of Revenue, Expenditure and Deficits
1984/85 to 1991/92



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THE 1·9·9·1 MANITOBA BUDGET

The Honourable Clayton Manness
Minister of Finance

Province of Manitoba

91-03984/

THE 1991 MANITOBA BUDGET ADDRESS

The Honourable Clayton Manness
Minister of Finance
April 16, 1991

Check against delivery

On the Cover:
The Prairie Crocus, the flower known botanically as the Anemone patens, was chosen in 1906 as the provincial floral emblem by the school children of Manitoba. This flower is a sure sign of spring in Manitoba, sometimes blooming before the last traces of winter snow have disappeared.

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THE 1991 MANITOBA BUDGET

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Mr. Speaker:

I am pleased to present our Government's fourth Budget to the Legislative Assembly and the people of Manitoba.

I would like to thank all the organizations and individuals who took the time to write briefs and letters, and to meet with me and with my colleagues. We received many valuable suggestions, and I believe the 1991 Budget reflects the thoughtful advice of concerned Manitobans throughout our province.

VISION FOR RENEWAL

The goal of our Administration is long-term economic renewal—the creation of a climate that encourages entrepreneurship, economic growth and job creation. Economic renewal will allow our children to feel confident that they will apply their abilities and education to world class endeavours right here in Manitoba.

Our commitment to this vision begins with a plan for fiscal responsibility. Recent events in Canada and around the world make it clear that governments cannot succeed in the business of facilitating economic renewal if their own finances are out of control. Irresponsible public spending and borrowing lead to excessive personal and corporate taxes that stifle both consumer-driven and investor-driven growth.

Ultimately, provinces succeed in stimulating particular industries and creating jobs because their home environment is the most forward looking, dynamic and challenging. This requires a stable and competitive tax environment in which disposable income drives growth through consumption, and capital investment drives growth through production.

There are many opportunities before us.

In the global marketplace, with its vibrant competition, Manitoba has the opportunity of providing leadership in bringing about a fresh approach to economic renewal. We recognize the new world reality as a simplified hierarchy consisting of a global economy and many regional economies. We must aggressively pursue new relationships with other governments and industry in mid-North America and throughout the world.

It is important that vital infrastructure, such as transportation and communication networks, well-equipped hospitals, schools and universities, meet the needs of emerging businesses, and support the quality of life we aim to achieve. However, we also recognize that government can become a burden on job creation through the imposition of an uncompetitive cost and tax structure.

Our fiscal plan is the blueprint for establishing a more competitive economic climate that will encourage investment and job creation.

THE FISCAL STRATEGY

In the seventies and eighties, governments allowed spending growth to drive taxation and borrowing decisions. The result is the legacy of debt and uncompetitive taxes which we face today.

We cannot change the past. But, we can, and we must make better choices about the future. There are no magic solutions. Spending must be reduced, or taxes must be raised significantly.

Manitobans have all the government they can afford. It is time for us to live within our means.

The unprecedented challenge facing the Province required an unprecedented search for solutions—an entirely different approach to evaluating public spending. We took the historic step of opening up the budgeting process when we outlined the three main thrusts of our approach to all Members of the Legislature in January:

- internal reform,
- a revised estimates process, and
- moderation in public sector negotiations.

I would like to take a few minutes to elaborate on the new approach.

Internal reform is a long-term strategy which focuses on the key results which Government should achieve. Are there better or more efficient ways of achieving these results? Are there programs or services which are no longer essential? Are there alternate or innovative means of delivery which can provide better and more efficient services to Manitobans?

The internal reform process has already resulted in a major reduction in Government communication resources, finance and administration, and executive level support. Spending in this area of Government will be reduced by $4.4 million.

In addition, organizational changes within the Department of Health will result in a significant reduction in administrative and middle-management positions. Reducing these costs means more of the health budget can be spent on protecting and improving health care for Manitobans.

Innovations in service delivery can ensure that a larger proportion of tax dollars go to actual services instead of administrative overhead. In some cases, it may be possible to give service recipients more control and discretion over the services they receive. In other cases, it may be possible to have external entities or the private sector provide the same services at lower cost. As demonstrated with the sale of Manitoba Data Services, this approach can also strengthen economic opportunities.

A revised estimates process is the second major component in our efforts to implement the fiscal plan. The new estimates process allows the Government to make decisions about taxes and the deficit first, and then make spending decisions within the limits of what the Province can afford.

The first cost to Government is paying the interest on our debt. Even in the depth of a recession, Manitoba taxpayers cannot escape this cost.

The revised estimates process also ensures that the remaining funds are directed toward priority programming through the use of a sectoral approach. The process focusses decision making not on individual departments, but on four broad sectors: human services, sustainable development, community development, and management and reform. Sectoral committees, comprised of Deputy Ministers, were asked to adopt a corporate, Government-wide focus during the annual estimates review process.

The sectoral committees categorized programming within each sector on the basis of priority and commitment, and developed 1991/92 plans for the sector based on targeted expenditure levels. These plans were presented to sectoral Ministerial committees and Treasury Board for review and approval.

The third major element of our fiscal plan is public sector wage negotiations. Wage settlements have a very large impact on costs of Government. In most areas of Government services, salaries make up about 80% of the costs, either paid directly to provincial civil servants, or indirectly through Provincial payments to employees in hospitals, schools, colleges, universities, municipalities and other institutions.

We are committed to working with public sector workers to preserve jobs and services by keeping services affordable to taxpayers. To do so, overall costs must be kept in line with our revenue. For that reason, we announced an overall target of 3% for public sector wages last December.

As always, there are clear choices in upcoming negotiations. The limited dollars available can be stretched further with moderation in demands and settlements, or unions can demand that larger wage settlements be provided, resulting in fewer public sector jobs. In an effort to avoid settlement-driven layoffs, we have offered the Manitoba Government Employees Association 0% this year and 2% next year, as part of a two-year settlement.

THE FISCAL CHALLENGE

Of the four Budgets I have been privileged to present, this one has been the hardest to prepare.

Our Province faces an unprecedented combination of severely constrained federal transfers, recession induced revenue stagnation, and rising interest costs on past borrowings. This combination of circumstances made each decision immensely more difficult. The immediate challenge is to keep our province on course to a prosperous future in extremely difficult and trying circumstances.

Substantial progress has been made in establishing control over Provincial spending in the last three years. Overall spending growth has been cut roughly in half, from 10% annual average under the former administration.

We also established a savings account for Manitobans, the Fiscal Stabilization Fund. As intended, the Fiscal Stabilization Fund has given the Province some badly needed flexibility to cushion revenue shortfalls during the period of exceptionally low revenue growth which began last year.

The deficit, however, remains a very serious concern. The Third Quarter Report projected spending at $5.1 billion, revenue of $4.8 billion and a deficit of $295.5 million. Preliminary information on the recently completed fiscal year suggests that the third quarter projection remains on track.

We must pay for past choices which ignored reality, which deferred again and again the necessary decisions, and refused to tailor spending to fit the Province's income. The accumulating debt load and rising interest costs threaten to cripple our Province's capacity to meet the real needs of Manitobans, and to contain taxes to competitive levels.

Despite the progress we have managed to achieve over the last three years, our taxes are still high. We have cut personal income taxes and held the line on corporate, capital and income taxes. Yet, overall business taxation is still very close to, if not the highest in Canada. Our corporate income tax is highest. Our corporate capital tax is second highest. Manitoba is one of only two provinces to tax manufacturing equipment and production machinery, and we are one of only four provinces to apply a payroll tax on jobs.

We must recognize that businesses are mobile. They make choices. They can locate in Manitoba or elsewhere. If they locate in Manitoba, we will have more jobs and more income. If businesses choose to locate elsewhere, our sons and daughters will not have the opportunity to remain in Manitoba to pursue their chosen careers.

Manitobans are willing to make sacrifices to protect those who are vulnerable. Manitobans are willing to pay fair taxes to support vital programs. But, Manitobans should not be asked to sacrifice their children's future. Manitobans should not be asked to tolerate tax regimes which undermine investment and job opportunities, and threaten the very basis for renewed prosperity.

In January, I briefed all Members of the Legislature on the difficult financial situation facing the Government. The enormity of the challenge before us is evident in the near-term outlook for revenue. With virtually flat revenue, if spending increased by 5% in 1991/92, the deficit would approach $600 million—the largest recorded deficit in the Province's history.

Three major factors contribute to the difficult fiscal challenge—the increasing cost of servicing our debt, the dampening effect of the recession, and reductions in federal transfers.

DEBT AND INTEREST COSTS

As I have said many times, deficits lead to increasing debt. Increasing debt leads to rising interest costs. Rising interest costs ultimately lead to reduced services.

Manitoba is bearing dramatically increased costs as a result of past spending beyond our means. In 1980/81, interest on the Province's General Purpose Debt totalled $79 million, equal to about 19 cents of every dollar collected in personal income tax. Today, interest costs are $550 million, equal to 45 cents out of every dollar Manitobans pay in personal income tax. The interest on this debt is a continuing and unavoidable burden on taxpayers.

Since 1980, Manitoba taxpayers have seen more than $3.5 billion of their hard-earned tax dollars spent on interest payments on General Purpose Debt. Yet these payments have not reduced the debt. Instead, our Net General Purpose Debt today is $5.2 billion, some $4.1 billion higher than a decade ago.

THE IMPACT OF RECESSION

Canada is in serious recession. Output of goods and services declined in the last three quarters of 1990. The decline is expected to continue through the first half of 1991. National unemployment is close to 1.5 million, and the national unemployment rate is above 10%. Federal high interest rate policies are a major cause of these current economic difficulties.

Manitoba is also experiencing recession. Revenue from our own provincial sources is declining.

Still, there are encouraging signs. Manitoba's unemployment rate is third lowest among the provinces, and below the national rate. Manufacturing investment for 1991 is forecast at the second-highest level in the province's history, auguring well for our future competitiveness. Manitoba's traditional areas of strength in agriculture, resources, hydro, manufacturing and financial services remain fundamentally strong. Our long-term future looks promising.

FEDERAL ACTIONS

Federal transfers and spending policies have added to pressure on Provincial finances. We reject the dishonesty inherent in the federal approach to health and higher education financing—repeated unilateral reductions to transfers, with federal cash payments virtually eliminated by the end of the decade, accompanied by loud proclamations of a federal commitment to post-secondary education and to national standards for medicare. The true test of a federal commitment to national standards is willingness to pay a fair share of the cost.

Manitoba is also facing considerable offloading of program responsibilities from the federal government in agriculture, in RCMP cost-sharing, social assistance for aboriginal people and other areas.

Of all federal transfers, equalization is of paramount concern to Manitoba. It is a program so critical to the country that it is now enshrined in the Constitution.

The Constitutional commitment is instructive:

> Parliament and the government of Canada are committed to the principle of making equalization payments to ensure that provincial governments have sufficient revenues to provide reasonably comparable levels of public services at reasonably comparable levels of taxation.

Yet, the federal government is currently paying $1.3 billion less to provinces, $121 million less to Manitoba, than the amounts required to achieve equalization under the federal government's own calculations. The shortfalls are too large for less wealthy provinces to be able to maintain competitive taxes and provide services comparable to those available to Canadians in wealthier provinces. If the lower-income provinces cannot maintain competitive taxes, they will inevitably lag further and further behind. It is a vicious circle we must avoid.

We will continue to fight for fair treatment from the federal government with every means at our disposal. As part of this effort, we are presently examining the possibility of a legal challenge to the present program, with the ceiling on equalization payments as being in direct conflict with the constitutional commitment to the program.

Taken together, federal actions, the recession and interest costs have created a difficult fiscal challenge.

Unless we succeed in keeping our finances under control, Manitoba will find itself handcuffed by ever-deteriorating finances—regardless of the political stripe of future administrations. If Manitoba's finances get out of control, Manitoba's creditors, and not the people of Manitoba, will set the Province's agenda.

1991/92 BUDGET INITIATIVES

As I outlined earlier in this Address, this Government is taking a new approach to budgeting. Instead of following the old budget process with its incremental spending decisions, we began this budget cycle by asking "How much government can Manitobans afford?"

KEEPING TAXES DOWN

Our Government recognizes the importance of competitive taxes to achieving Manitoba's full economic potential.

The tax reductions in Manitoba over the last three years were in sharp contrast to tax increases in other provinces. Personal Income Taxes were reduced to bring the tax burden facing Manitoba families closer in line with other provinces. The provincial Education Tax on Farm Land has been eliminated. As a further measure of tax relief to Manitobans, the provincial sales tax is no longer applied on top of the federal sales tax. Manitoba does not tax the GST.

These measures, among others, are helping to move Manitoba's taxes closer to the mainstream among provinces.

I am pleased that today's Budget will protect the gains we have made in tax competitiveness.

- There wil' be no increase in Personal Income Tax.
- There will be no increase in the Retail Sales Tax.
- There will be no increase in Corporation Income Tax.
- There will be no increase in Corporation Capital Tax.
- There will be no increase in the payroll tax.

The exceptionally difficult fiscal situation required some additional revenue. The Tobacco Tax will be increased by 1 cent per cigarette after May 31, 1991. The Gasoline Tax will increase by 1.5 cents per litre, and the tax on diesel fuel will increase 1 cent per litre on April 30, 1991. The Environmental Protection Tax levied on non-returnable beer cans will increase from 5 cents to 10 cents, in line with the deposit charged on returnable cans.

These measures will increase revenue by $32.5 million this year.

Beginning July 1, 1991, corporations subject to the Corporation Capital Tax will be required to make quarterly instalments. This will reduce Government debt-servicing costs by approximately $3.5 million annually.

TARGETING ECONOMIC INCENTIVES

Each of the last three Manitoba Budgets introduced significant reductions in the payroll tax. Between 1988 and 1990, the exemption was increased from $100,000 to $600,000. All employers with payrolls of under $1.2 million have seen their liabilities reduced. To ensure more equitable access to this relief, the exemption will be prorated among associated corporations.

The New Small Business Tax Reduction introduced in the 1988 Budget provides significant income tax relief for new small corporations. The program was intended to benefit genuinely new small businesses, to encourage firms which have successfully put a good idea into place.

After reviewing the experience in the first year of the program, I have become concerned that many of the businesses which benefit have simply purchased established firms. The program will, therefore, be reformed to significantly restrict access by firms which purchase existing businesses. The new rules will take effect immediately. The reformed program will be extended to December 31, 1992, and will be reviewed in depth before any further extensions are announced.

In the 1990 Budget, I announced a payroll tax credit for employee training. Employers committed to improving their workers' skills are able to reduce their payroll tax rate to 1.95%, the same as in Ontario, and well below the Quebec rate. The program will help businesses put training programs in place, and will provide opportunities for employees to increase their skills, their value to employers and their future incomes. Businesses which have introduced qualifying programs will begin making applications for this credit in early 1992.

The future of northern Manitoba mining depends on finding and developing new mineral deposits. Over the last several years, many Manitobans have taken advantage of incentives in the federal Income Tax Act, and purchased interests in junior exploration companies. The funds raised in our province—about $80 million in the last four years alone—helped discover major ore deposits in other provinces.

We want to ensure that the funds raised in our province are invested here. I am, therefore, announcing a new incentive to redirect Manitobans' investment into Manitoba and encourage exploration for mineral deposits, oil and gas in our province.

Investors who purchase equity in a registered Manitoba Mineral Exploration Investment Corporation will qualify for a grant equal to 25% of the investment. The exploration activity financed by these investments must take place in Manitoba. The grant will supplement the flow-through incentives available under the federal Income Tax Act for investors in mineral exploration. This program will lead to increased exploration activity and employment, and will lay the groundwork for new mineral and oil and gas development in the province.

Our Government is also working actively with the Manitoba Federation of Labour on the start up of a government-labour sponsored employee ownership fund. The fund will provide incentives to facilitate transfer of broad ownership of Manitoba companies to employees. This will help Manitoba workers take advantage of the opportunities that arise to take an ownership position in their companies, thereby creating and saving jobs.

TAX CREDITS

We are acting to assure more timely delivery of all provincial benefits to social allowance recipients. Effective next January, social allowance rates will be increased to include provincial tax credits. By converting the annual tax credit into a regular monthly payment, people will benefit on a more timely basis, and income tax refund discounters will no longer have access to these entitlements of social allowance recipients.

GOODS AND SERVICES TAX

I would also like to comment on the issue of harmonizing Manitoba's Retail Sales Tax with the federal Goods and Services Tax.

The Manitoba Government will not harmonize the Manitoba Retail Sales Tax with the Goods and Services Tax in this Budget.

Nevertheless, the Goods and Services Tax has been introduced. Quebec, Saskatchewan and Prince Edward Island have already decided to harmonize their provincial sales taxes with the Goods and Services Tax. Businesses in provinces which harmonize their provincial sales taxes with the GST may have a significant edge over their competitors in Manitoba. For example, a manufacturer in Quebec will be freed from all Quebec tax on its operating and equipment purchases, while a similar business in Manitoba continues to bear sales tax on all these costs.

Given the potential negative impact of this competitive disadvantage on job creation, the issue warrants further investigation. Accordingly, in the coming months my officials will carefully study the full implications of harmonizing sales taxes.

1991/92 REVENUE SUMMARY

Earlier, I indicated that the near-term outlook is for limited revenue growth. Revenue prior to tax changes and before any special measures is expected to grow by one half of 1%. With the tax increases announced today, overall revenue growth for 1991/92 is $58 million or 1.2%.

Revenue by Source
1990/91 and 1991/92

1990/91 Budget ($M)	1990/91 3rd Q. ($M)		1991/92 Budget ($M)	Change From 1990/91 Budget ($M)	Budget (%)	3rd Q. ($M)	3rd Q. (%)
1,785	1,772	Manitoba Collections	1,757	(28)	(1.6)	(15)	(0.8)
1,301	1,221	Income Taxes	1,302	2	0.1	81	6.6
3,086	2,993	Own-Source Revenue	3,059	(26)	(0.9)	66	2.2
1,629	1,690	Federal Transfers	1,713	84	5.1	23	1.4
4,715	4,683	Total Revenue before Stabilization	4,772	58	1.2	89	1.9
83	83	Lotteries Draw & Fiscal Stabilization	145	62		62	
4,798	**4,766**	**Total Revenue**	**4,917**	**120**	**2.5**	**151**	**3.2**

Totals may not add due to rounding. Ratios computed using unrounded data.

To sustain services during the recession, we have authorized a special $20 million transfer from Lottery Revenues, and a $125 million transfer from the Fiscal Stabilization Fund.*

These transfers bring total revenue to $4.9 billion or 2.5% above last year's estimate.

*An estimated $144 million would remain in the Fiscal Stabilization Fund as at March 31, 1992, including Preferred Shares in Repap Enterprises valued at $78 million, which will be retained in the Fund until redemption.

1991/92 SPENDING PRIORITIES

The first draw on revenue is the continuing drain of past decisions to spend in excess of income. At the start of this year, before any decisions on Budget allocations for programs and services, we had to find $550 million just to pay the interest on past borrowings. This growing requirement will continue to limit Manitoba's flexibility for years to come. Only after we pay the interest on the debt are we able to fund the real spending priorities of this Government: health, education and family services.

Overall spending is up $160 million or 3.2%, with particular priority given to Health, Family Services, and Education and Training.

Careful attention has been paid to protecting essential programs.

An additional $90 million is devoted to Health programs, a remarkable accomplishment in the face of the $32 million decline in federal cash transfers for health and higher education. A further $37 million is provided for Family Services. Education and Training accounts for $23 million of the total increase.

As I said earlier, Public Debt costs budgeted within the Department of Finance increased. The only other Departments recording budgetary increases were Environment, Government Services and Justice.

Reductions in other areas were required to permit the increases for the high-priority area of human services. Departments with reduced budgets include: Legislation, down 36%, Executive Council, down 7%, Civil Service, down 15%, Co-operative, Consumer and Corporate Affairs, down 2%, Culture, Heritage and Citizenship, down 10%, Energy and Mines, down 21%, Finance, down 7% on Departmental operations, Fitness and Sport, down 68%, Highways and Transportation, down 2%, Housing, down 1%, Natural Resources, down 14%, Rural Development, down 3%, and Urban Affairs, down 7%.

WORK FORCE ADJUSTMENT STRATEGY

As a result of the reductions in overhead and administration and trimming of lower-priority programming, the Budget plans for a significant reduction in staffing authorization of some 958 staff years, or about 5% of the total Provincial civil service. Through a combination of early retirements, normal attrition, and work force adjustment incentives, we are hoping to reduce the number of permanent layoffs to between 375 and 450 employees.

We value the important contribution made by the thousands of Manitobans who deliver our programs and services. We have sought to minimize the impact on these individuals, by asking for moderation in salary requests, and in making our decisions on program expenditure.

While it has not been possible to avoid layoffs, and the human costs associated with these difficult decisions, we will take steps to mitigate the impacts on our employees and their families. Employees affected by program reductions will be provided with enhanced severance assistance and support. Voluntary severance incentives will be offered to employees not directly affected in order to maximize re-employment opportunities within the civil service.

FISCAL PLAN SUMMARY

The Government's fiscal plan continues our commitment to fiscal responsibility, despite the difficult circumstances of the Canadian recession. The lack of fiscal responsibility at both federal and provincial levels during, and especially after the last recession, resulted in an unprecedented legacy of debt and deficits and interest burdens which still plague governments in Canada. We cannot afford to repeat those mistakes.

Spending growth of 3.2% reflects the difficult choices made to control overall spending, while protecting vital health, education and family services.

With overall revenue growth of 2.5%, including the special measures announced earlier, the deficit will be $324 million.

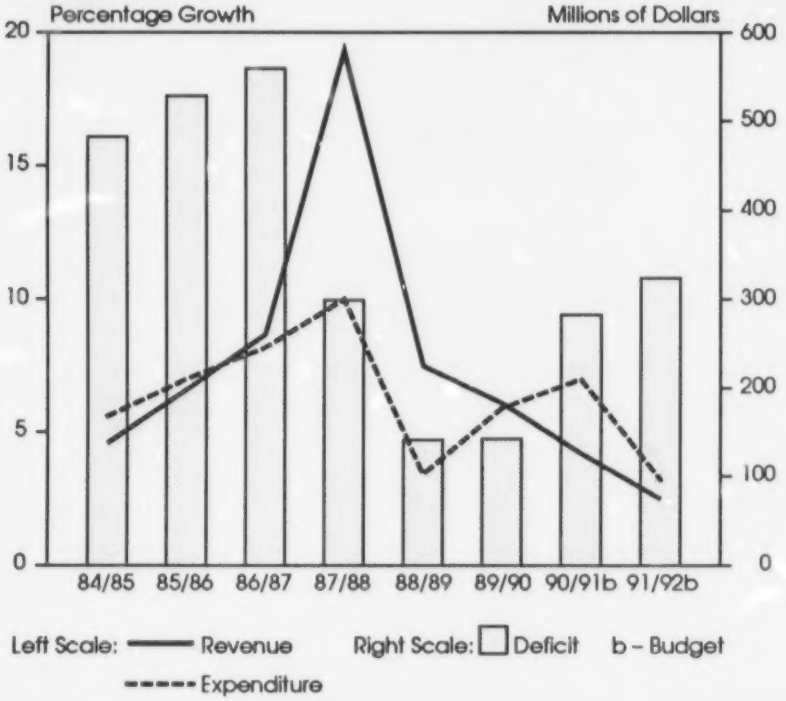
Comparative Statement of Budgetary Revenue and Expenditure
1990/91 and 1991/92

	1990/91 Budget	1991/92 Budget	Change	Change
	(Millions of Dollars)			(Per Cent)
Budgetary Expenditure	5,081	5,241	160	3.2
Budgetary Revenue	4,798	4,917	120	2.5
Deficit	283	324	41	14.3

Adhering to a course of fiscal responsibility will mean that the deficit will be much lower than it was for five years under the previous administration. This is essential if we are to put a stop to growing debt and rising interest costs, and protect our capacity to provide priority public services on a basis affordable to Manitoba taxpayers now and in the future.

Summary of Revenue, Expenditure and Deficits

1984/85 to 1991/92



The Government's borrowing plans total almost $2 billion, including borrowing for non-budgetary items such as capital programs of Crown corporations, refinancing of maturing debt, and the annual sinking fund allocation, as well as $300 million for the budgetary deficit.

MULTI-YEAR BUDGETING

The reforms introduced in this Budget build a framework to keep Provincial finances under control. The framework permits priority programs to be maintained, while holding overall spending growth to about half expected inflation this year.

Inflation is expected to ease throughout 1991, and be significantly lower in 1992. Interest rates are expected to maintain their downward trend, paving the way for a rebound in the Canadian and Manitoba economies later this year, and continuing through 1992 and beyond.

With economic recovery, revenue should increase by 3% to 4½% next year, and in the 2½% to 4% range in subsequent years.

Assuming spending growth continues at this year's rate, the deficit would fall in the range of $270 million to $345 million in 1992/93, and in the range of $240 million to $390 million in 1993/94.

Multi-Year Fiscal Plan
1991/92 to 1993/94

	1991/92	1992/93	1993/94
Spending Increases	3.2%	3.2%	3.2%
Revenue Increases	2.5%	3.0% - 4.5%	2.5% - 4.0 %
Deficit ($M)	324	270 - 345	240 - 390
Assumptions			
Inflation	6.0%	4.0%	2.5%
Real Output (Canada)	(0.5%)	3.3%	3.5%
Bank Rate	9.5%	9.0%	7.0%

Our Government's goal will be to move steadily toward balancing the Budget over the following years. This will mean keeping spending growth somewhat below inflation next year, and very close to inflation in subsequent years.

Staying on course will demand many difficult decisions in years to come. If spending growth is even one percentage point higher, the deficit will rise inexorably, adding further to debt burdens and interest costs.

The framework relies primarily on Provincial actions and decisions. However, federal offloading and constraints would add significantly to the difficulty of meeting these targets.

The underlying economic scenario is somewhat more cautious than the federal government's. Manitobans can expect a stable tax and cost environment; an environment that will look increasingly attractive as other jurisdictions come to grips with their own fiscal situations.

Holding the course will give Manitoba the fiscal flexibility needed to take new initiatives in economic development, and to preserve and enhance essential public services.

CONCLUSION

This Budget continues the Government's progress in implementing its fiscal plan to provide our Province with the needed foundation for economic growth and prosperity.

This Government believes in our province and its people. We are confident in the ability of Manitobans to compete with the best in the world, and to do so right here in Manitoba.

All too often, government has served as a barrier to economic growth instead of as a partner. Our Government is determined to change that.

Over the past three years, we have made steady progress in our efforts to improve the climate for economic development. We are committed to protecting those gains despite the serious fiscal challenge that lies before us.

We have developed new approaches to budgeting that recognize the limits to how much government Manitobans can afford.

This Budget avoids major tax increases.

This Budget keeps our deficit to a manageable level.

Most importantly, this Budget ensures that our limited tax dollars are spent on the highest priorities.

Budget Paper A

ECONOMIC PERFORMANCE AND PROSPECTS

ECONOMIC PERFORMANCE AND PROSPECTS

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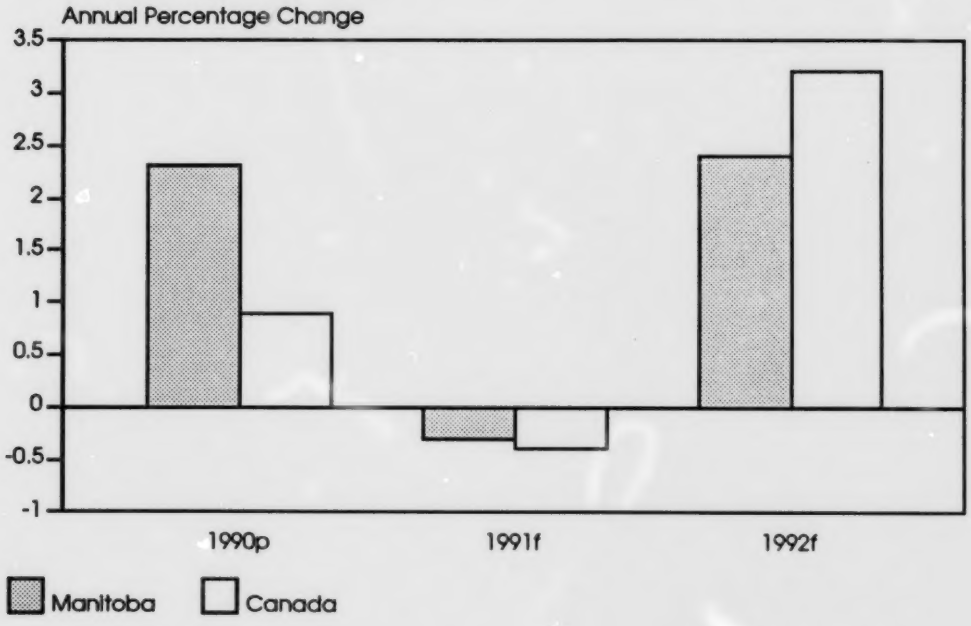
The Canadian Situation

The Canadian recession is now a year old. In the first three quarters of this recession, real Gross Domestic Product declined by 1.6%, which is significantly less than the 2.7% decline recorded over the same period in the recession of 1981/82. Unfortunately, the relative increase in the number of unemployed people is just as serious this time as last: about 20% in the first three quarters of both recessions.

There is at least one important difference between the two recessions which gives reason to hope that this one will not drag out as long: in the first quarter of the 1981/82 recession, manufacturers' inventories were equal to twice their shipments, and the ratio rose for several months thereafter. In the first quarter of this recession, inventories were only one and a half times shipments, and the ratio did not change in subsequent months. This low level of inventories suggests that when demand does begin to pick up, employment will increase quickly, as firms will have a limited ability to fill orders from inventory.

Real Gross Domestic Product Growth, Manitoba and Canada



p - Preliminary f - Forecast

Source: 1990, 1991 average of seven private sector forecasters
1992 average of four private sector forecasters

The 1990/91 recession was "made-in-Canada". It was caused by high interest rates which were the product of high and rising demand for credit, in the face of a steady tightening of credit conditions by the Bank of Canada. With the onset of recession, growth in demand for credit slowed considerably, and there was some easing by the Bank of Canada. This resulted in short-term interest rates declining by over four percentage points between May 1990 and March 1991. Reduced interest rates have the potential to end the recession, but it is unclear whether the decline so far is sufficient to create an early recovery.

Export sectors of the economy (which account for one-quarter of Canada's Gross Domestic Product) are encountering problems which could delay recovery. These sectors are coping with a Canadian dollar considered by many to be overvalued, which reduces either the profit margins or the competitiveness of Canadian exports. To date, the decline in interest rates has had no effect on the dollar, possibly because the spread between Canadian and U.S. rates is still wide by historical standards. Furthermore, the U.S. economy slowed considerably during 1990 and this has hurt Canadian exports. Full recovery in Canada may depend on a strong recovery south of the border, and some moderation in the exchange rate.

Inflation returned to centre stage in 1990. Wage settlements were rising, the Gulf War caused a sharp increase in oil prices, and the introduction of the GST was expected to ratchet the price level up. For all of these reasons, the Bank of Canada was determined not to ease credit conditions too soon. By early in 1991, oil prices had returned to their pre-war level, largely removing the threat of inflation from that source. The Consumer Price Index jumped 2.1% between December and January, primarily because of the GST; but the CPI did not change at all between January and February, suggesting that the January increase was, as hoped, a one-time increase in the price level rather than an acceleration of the inflation rate. This raises the possibility of some further easing by the Bank of Canada.

The Governor of the Bank of Canada and the Minister of Finance announced inflation targets this past February. The first target is 3% for the end of 1992, and given the lag in the effects of monetary policy, lower inflation a year and a half from now is believed to require an appropriately tight monetary policy today. For targets to be credible and reduce inflationary expectations, it is crucial that the first announced target be achieved, but if policy remains too tight, recovery from the recession will be constrained.

In part because of the uncertainty about monetary policy, forecasters differ in their expectation of when growth will resume. Some expect recovery early in the second quarter of 1991, while others put the recovery late in the third quarter. As the chart on page one shows, the forecasters are expecting 1992 to be a year of strong growth nationally and in Manitoba.

The Manitoba Situation

1990 started out as a good year for the Manitoba economy, with seasonally adjusted unemployment falling to 6.5%, the lowest level in just over eight years. Average employment for the year surpassed 500,000 for the first time. As measured by a number of economic indicators such as retail sales, manufacturing shipments and bankruptcies, Manitoba was doing well, both absolutely and in comparison to national averages.

Unfortunately, central Canada fell into recession in the second quarter, and by the third quarter, that recession had spread to Manitoba. But even when the recession did reach Manitoba, its initial impact was modest. As late as October, when the national recession was seven months old, seasonally adjusted employment in Manitoba was still higher than it had ever been prior to 1990. In January 1991, ten months after the recession began, the unemployment rate in Manitoba was 7.8%, less than half a percentage point different from the average unemployment rate which prevailed in each of the years 1985 through 1989.

In the first two months of 1991, the recession deepened in Manitoba. Manufacturing shipments in January dropped to almost 10% below their level of a year earlier; January housing starts were down 37% from January 1990; and seasonally adjusted unemployment rose to 8.5% in February.

The severity of the recession has varied significantly from sector to sector. Residential housing construction has clearly been the hardest hit. In contrast, non-residential construction was reasonably strong in 1990 and is expected by the industry to remain at the same level in 1991.

The manufacturing sector started off strongly in 1990, but ended up with an overall decline in shipments of 1.8% over 1989. However, five of the twelve manufacturing subsectors managed to achieve an increase in shipments. Particularly noteworthy was the 8.6% increase in shipments of transportation equipment which includes aerospace and buses. This is an impressive increase considering that it follows on the heels of a 26% increase in 1989 and a 17% increase in 1988. Shipments of the largest manufacturing subsector, food and beverages, declined by 2.5%.

In the service sectors, performance was also uneven. By February 1991, employment in transportation, communication and utilities was down 9.8% from a year earlier, and down 4.4% in wholesale and retail trade. But employment in finance, insurance and real estate was up 5.9%, while community, business and personal service employment was up 3.2%. Including a 9.5% decline in public administration and defence, total service sector employment was down 1.4%.

Agriculture remains a serious concern, but as an export-oriented sector, its performance is not as subject to the forces of domestic recession as some other sectors. The major problem is in the grains and oilseeds subsectors, where the continuing export subsidy war being fought by the United States and the European Community is keeping prices for those products too low to be profitable. The livestock sector, however, is doing reasonably well.

Mining, too, is affected more by export than domestic markets. The value of production was down 20% in 1990 due primarily to lower world nickel prices. However, 1988 and 1989 were extremely good years, and the value of production in 1990 was still well above the levels achieved in years prior to 1988.

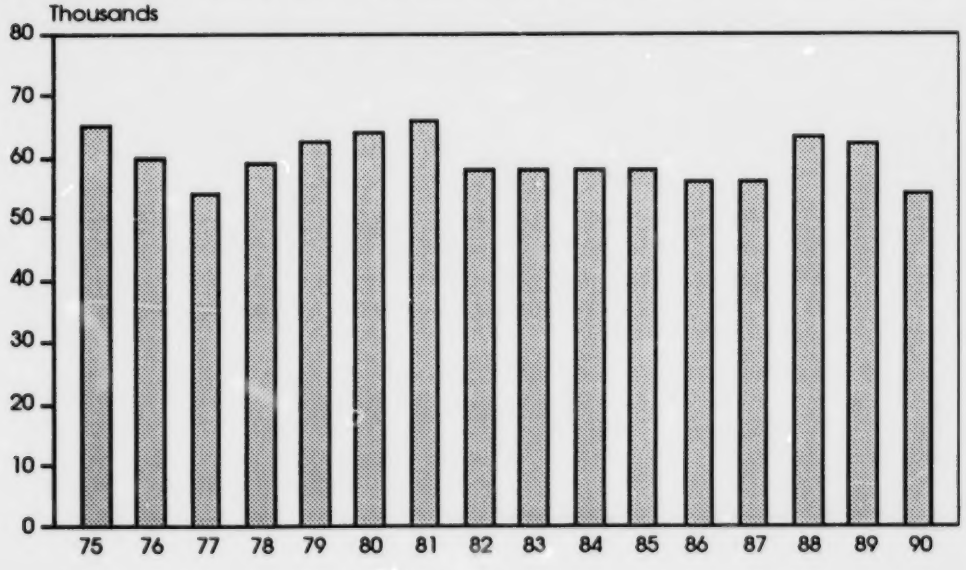
It seems fair to say that some parts of the Manitoba economy are suffering from recession, while others are largely unaffected.

Manufacturing

The situation in the manufacturing sector is deserving of special comment. Concern has been expressed regarding the health of this sector. It is noted that employment in Manitoba manufacturing declined by 8,000, or 12.9%, from 1989 to 1990. But as the chart below shows, manufacturing employment in Manitoba has been on a flat trend since at least 1975, fluctuating within a relatively narrow range. There is no evidence of a secular decline. The fact that the recession-induced decline in 1990 is within the long-term range of variation is an encouraging sign of the stability of the sector.

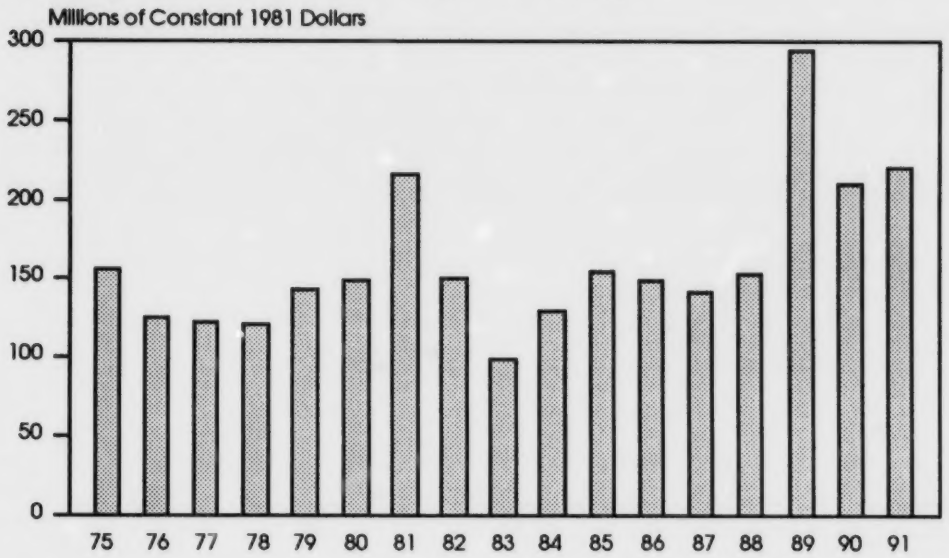
While employment growth has been flat, output has continued to grow, which means that labour productivity—the amount of output per worker—has been rising. It is difficult to produce an accurate estimate of changing productivity, corrected for inflation, over time. Nevertheless, the data suggest that during the 'Eighties, the real volume of output per worker in Manitoba manufacturing increased by somewhere between 15% and 30%. Such increases are essential if firms are to maintain existing markets and win new ones. Increased labour productivity is also essential for sustained increases in wages.

Employment in Manitoba Manufacturing



Source: Statistics Canada

Investment in Manitoba Manufacturing



1990 - Preliminary 1991 - Intentions

Source: Calculated from Statistics Canada and Manitoba Bureau of Statistics data

A key indicator of the health of a sector is the volume of investment, for only by investing in new plant and equipment can a firm continue to increase productivity and quality and thereby remain competitive. As shown in the chart above, there has in fact been very strong growth in manufacturing investment recently. Real manufacturing investment increased by an unprecedented 93% in 1989. It was not as high in 1990, but it was still 38% above the level of 1988. According to the Statistics Canada survey of investment intentions released earlier this year, 1991 will be another strong year. Taken together, real manufacturing investment in 1989-91 is 69% higher than the average of the years 1975-88.

Another factor to consider is that data on employment or shipments of the manufacturing sector as a whole obscure significant differences between subsectors. It was noted on page three that out of 12 manufacturing subsectors, five managed increased shipments in 1990. The following shows the percentage increase in shipments for these subsectors in 1990 and over the period 1983-1990 (without any correction for inflation). Also shown is each sector's relative size ranking in 1990:

	1990	1983-90	Size Rank
	(Per Cent Change)		
Transportation equipment	8.6	110	2nd
Chemicals	7.9	83	10th
Primary metals	6.4	328	3rd
Printing, publishing and allied	5.0	93	4th
Wood, furniture and fixtures	0.7	61	7th
Total manufacturing	-1.8	47	

It is interesting to note that each of the subsectors which grew in 1990 has far outpaced growth in the total manufacturing sector since the last recession, suggesting that these are fundamentally strong, competitive sectors. Note also that three of the four largest subsectors are on the list.

There are always examples of individual manufacturing firms going out of business, but there is no evidence of a persistent decline in any of the twelve subsectors of Manitoba manufacturing.

In short, if one takes a long view of manufacturing employment, and considers that productivity is rising, that investment has recently been at very high levels, and that some key subsectors are growing strongly, all despite the recession, then it is clear that Manitoba's manufacturing sector is fundamentally strong.

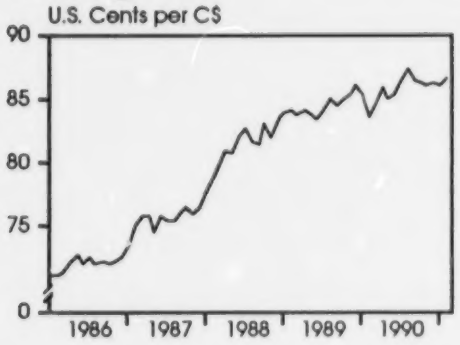
Manitoba Outlook at a Glance

	1990	1991	1992
	(Per Cent Change Except as Noted)		
Gross Domestic Product (market prices)			
Nominal	2.9	3.4	6.5
Real	2.3	-0.3	2.4
Employment	1.4	0.2	1.2
Unemployment Rate (%)	7.2	7.8	7.7

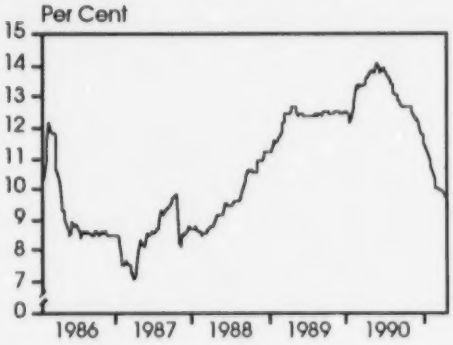
Source: 1990, Statistics Canada and Manitoba Bureau of Statistics; 1991, average of 7 private sector forecasters; 1992, average of 4 private sector forecasters

Canadian Exchange Rates, Interest Rates and Trade

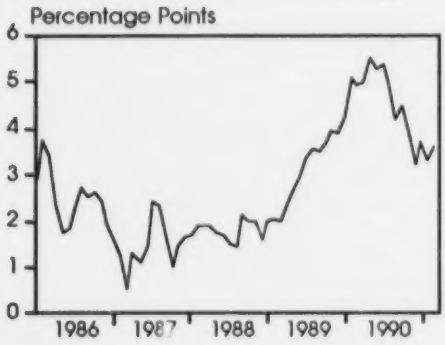
Exchange Rate



Bank of Canada Rate



Can/U.S. Interest Rate Spread



Exports and Imports

- Beginning in 1976, the Canadian dollar depreciated against the U.S. dollar more or less steadily until it bottomed out in 1986 at approximately 70 cents U.S. Since 1986, the Canadian dollar has risen in value by over 20%, and averaged 85.7 cents U.S. during 1990.

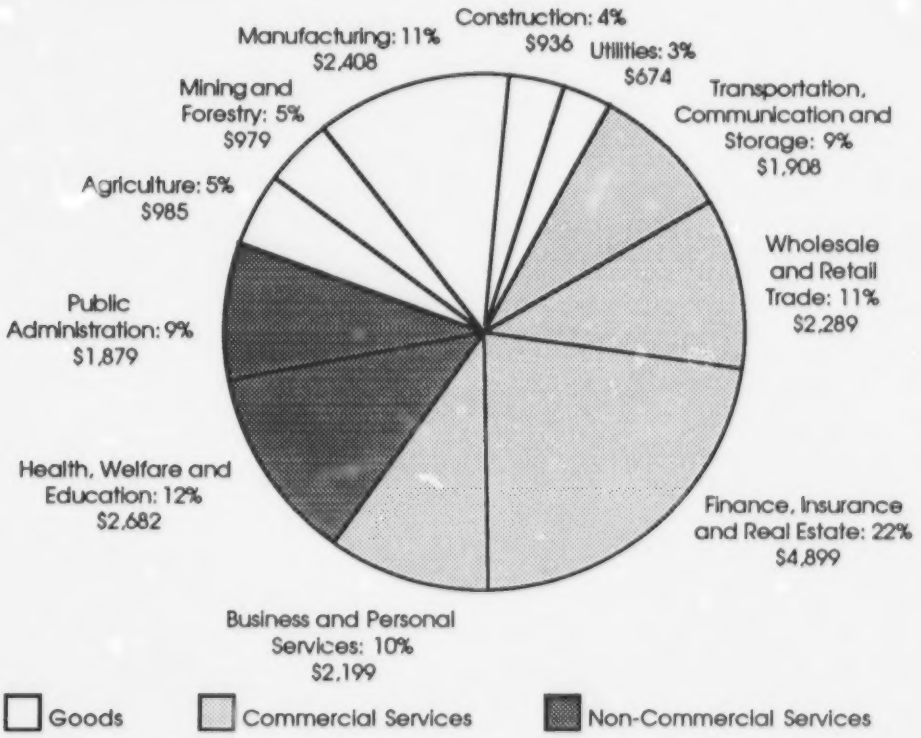
- In the 10 months from March 16, 1989 to January 11, 1990, the Bank of Canada rate fluctuated in a narrow range between 12.30% and 12.62%. Starting in February 1990, the Bank Rate climbed rapidly, peaking at 14.05% on May 24. It then began a steady fall, with declines recorded in 37 of the next 46 weeks. At its recent setting on April 11, the Bank Rate was 9.71%—4.34 percentage points below the May 24 peak.

- In 1987 and 1988, the spread between Canadian and U.S. interest rates (as measured by the adjusted yields on 90-day commercial paper) ranged between 0.5 and 2.4 percentage points. The spread rose steadily during 1989 and early 1990 to peak at 5.49 percentage points in May 1990. In March 1991, the spread averaged 3.5 points.

- Canada's merchandise exports grew strongly in the first half of 1990, but slowed in the second half. There was little growth in imports due to the recession. Consequently, the trade surplus increased by 43% over 1989.

Gross Domestic Product at Factor Cost, by Industry, 1990

Millions of Dollars and Per Cent of Total



Note: Totals may not add due to rounding.

Source: Manitoba Bureau of Statistics

- In 1990, Gross Domestic Product at factor cost, the sum of all incomes earned by factors of production, increased by 2% to $21.8 billion.
- Goods production accounted for 28% of Manitoba's GDP at factor cost. Manufacturing was the largest of the goods-producing sectors, with 11% of GDP. Agriculture, along with mining and forestry, were tied for second with just under 5% each, construction was next with a little more than 4% and utilities were last with just over 3%.
- Commercial services accounted for 52% of GDP, with finance, insurance and real estate accounting for the largest share at 22%. Wholesale and retail trade was second with 11%, followed by business and commercial services with just over 10%, and transportation, communication and storage with just under 9%.
- Health, welfare and education accounted for 12% of GDP, while public administration contributed just under 9%.

Manitoba's Major Foreign Exports, 1990

	$ Millions	Per Cent
Nickel*	637.0	17.9
Grains and Cereals	624.3	17.6
Oilseeds and Oil	266.2	7.5
Wood and Paper Products	192.9	5.4
Motor Vehicles and Parts	166.4	4.7
Aircraft and Components	163.4	4.6
Live Animals	161.2	4.5
Computer Equipment	73.6	2.1
Metal Ores and Concentrates	66.6	1.9
Farm Machinery	55.6	1.6
Beef and Pork	54.4	1.5
Vegetables	53.4	1.5
Fish	47.4	1.3
Chemical Compounds	40.0	1.1
Plastic Shapes and Parts	33.9	1.0
Electricity	33.9	1.0
Top Commodity Groups	2,670.2	75.2
Total 1990 Exports	3,549.9	100.0

* Most of Manitoba's nickel is exported via Ontario so the exact quantities and destinations are unknown. Manitoba's foreign nickel exports are estimated at 90% of total production.

Manitoba's Top Ten Foreign Export Destinations, 1990

Millions of Dollars

	Agricultural Products	Non-Agricultural Products	Total	Per Cent of Subtotal
U.S.A.	265.4	1,566.0	1,831.3	61.4
Japan	199.9	58.8	258.7	8.7
China	152.1	0.1	152.3	5.1
U.S.S.R.	138.4	2.5	141.0	4.7
Belgium	29.4	64.7	94.1	3.2
United Kingdom	14.7	38.2	52.8	1.8
Taiwan	5.8	35.8	41.6	1.4
Iran	30.2	3.6	33.8	1.1
Germany	13.2	15.7	28.8	1.0
Saudi Arabia	18.0	1.0	19.0	0.6
Other Countries	212.7	118.7	331.4	11.1
Subtotal	1,079.7	1,905.1	2,984.9	100.0
[Nickel*]		565.0	565.0	
Total	1,079.7	2,470.1	3,549.9	

* For which destination information is unavailable.

Note: Totals may not add due to rounding.

Source, both tables: Manitoba Bureau of Statistics

Population and Labour Market

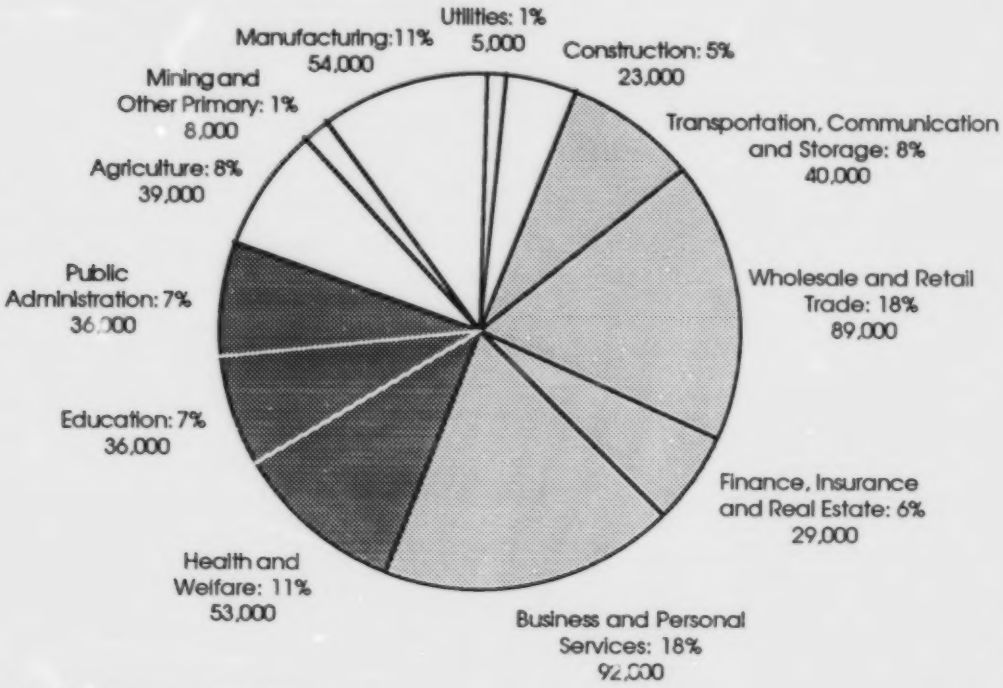
	1986	1987	1988	1989	1990
	(Thousands of Persons)				
Population (June 1)	1,071	1,079	1,084	1,085	1,090
Working Age Population	793	799	803	803	806
Labour Force	526	531	535	538	545
Employment	486	492	494	498	505
Unemployed	40	39	42	41	40
	(Per Cent)				
Participation Rate	66.4	66.5	66.7	67.0	67.6
Unemployment Rate	7.7	7.4	7.8	7.5	7.2

Source: Statistics Canada

- Manitoba's population was estimated at 1,092,600 in January 1991, an increase of 4,400 from January 1990. The increase is acco nted for as follows:
    - There were 17,460 births in 1990 and 9,090 deaths for a net natural population increase of 8,370.
    - In 1990, only British Columbia and Alberta experienced net in-migration from other provinces. Net interprovincial out-migration from Manitoba was 8,836, up from 8,100 in 1989.
    - Net international immigration to Manitoba in 1990 was up 722 to 4,857, the highest level since 1980.
- In 1990, employment averaged 505,000 in Manitoba—the first time the annual average has surpassed the half million mark. The unemployment rate averaged 7.2%—the lowest since 1981, and fourth lowest among the provinces.
- In the first three months of 1991, employment in Manitoba was lower by 2.2% than in the same period in 1990. The unemployment rate in the first three months averaged 8.4%.

Employment by Industry, 1990

Number of Employed and Per Cent of Total



Total Employment: 505,000

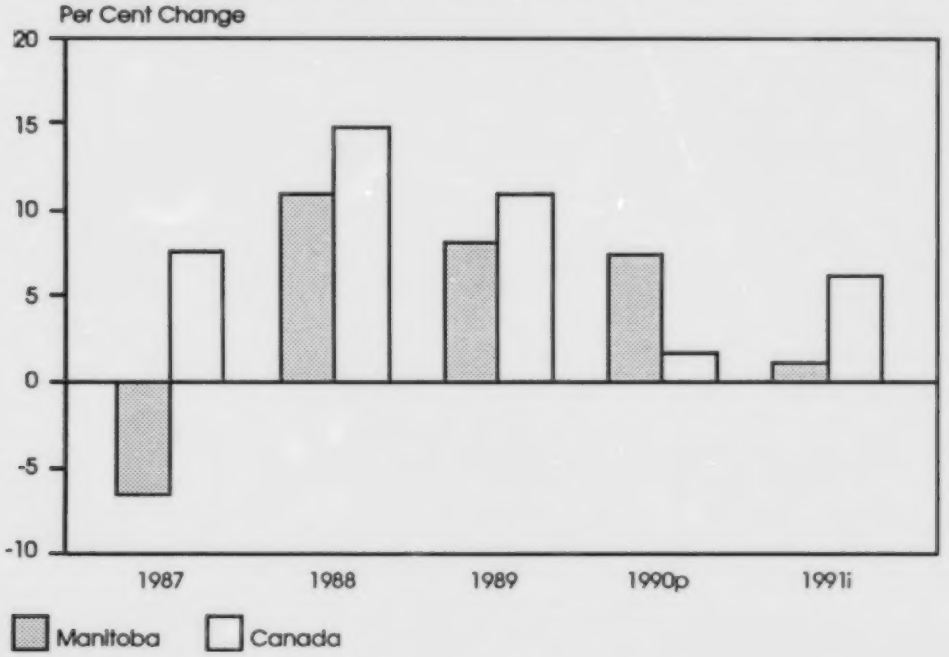
Goods | Commercial Services | Non-Commercial Services

Note: Totals may not add due to rounding.

Source: Statistics Canada

- Goods-producing industries account for about 25% of total employment in Manitoba.
- Commercial services account for 50%, while health and welfare, education and public administration account for 25%.
- In 1990, employment increased by 7,000 in business and personal services, by 6,000 in health and welfare, and by 4,000 in education. There were smaller increases in finance, insurance and real estate, construction, and wholesale and retail trade. Declines occurred in manufacturing, down 8,000; transportation, communication and storage, down 3,000; and public administration, down 3,000. There were smaller declines in utilities and mining. There was no change in agriculture.

Non-Residential Capital Investment, Manitoba and Canada, 1987 to 1991



p-Preliminary i-Intentions

Source: Statistics Canada

- According to Statistics Canada's Private and Public Investment Survey of February 1991, total capital investment in Manitoba in 1990 was $3.9 billion, representing 4.1% growth over 1989. Total Canadian investment in 1990 grew by 0.2%. For 1991, total investment in Manitoba is expected to be virtually unchanged from 1990, while Canadian investment is expected to grow 2.8%.

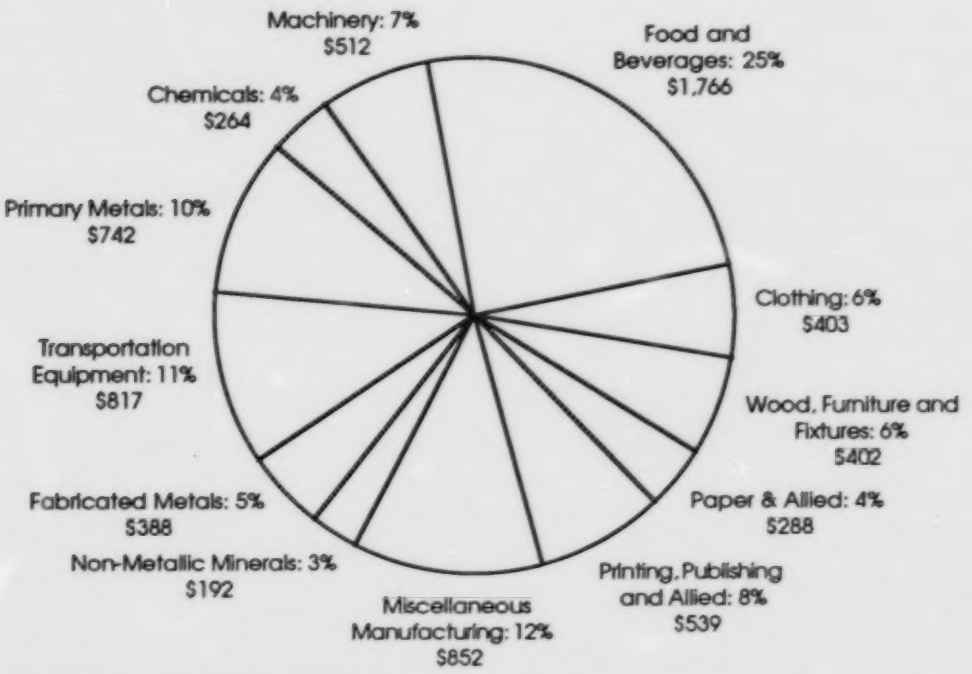
- Non-residential investment increased by 7.4% in 1990, compared to 1.6% nationally. By sector, increases were recorded in transportation, up 41.9%; institutions, up 36.1%; communications, up 33.0%; utilities, up 30.3%; primary industries and construction, up 17.0%; and government departments, up 5.9%. Decreases were recorded in trade, finance and commercial services, down 14.8%, and manufacturing, down 26.3%. The decline in manufacturing followed an increase of 95.7% in 1989. Manufacturing investment in 1990, when adjusted for inflation, was greater than in any previous year since at least 1975, except 1981 and 1989.

- Some of the major projects in 1991 include a new General Electric plant making digital electronic signal processing equipment, $10 million and 70 jobs; relocation of the McLeod-Steadman head office from Toronto to Winnipeg, $2 million and 110 jobs; expansion of the Western Glove Works plant, $2 million and 170 jobs; expansion of Gemini Fashions plant, $1.25 million and 30 jobs; expansion at Wilmar Windows, $4 million and 130 jobs; and Hughes Electronics/Kraus Industries, $1 million for the production of sound reproduction equipment.

- Investment in housing declined 7.2% in 1990, and is expected to decline a further 3.6% in 1991.

Manufacturing Shipments, 1990

Millions of Dollars and Per Cent of Total



Total Value of Shipments: $7,166 million

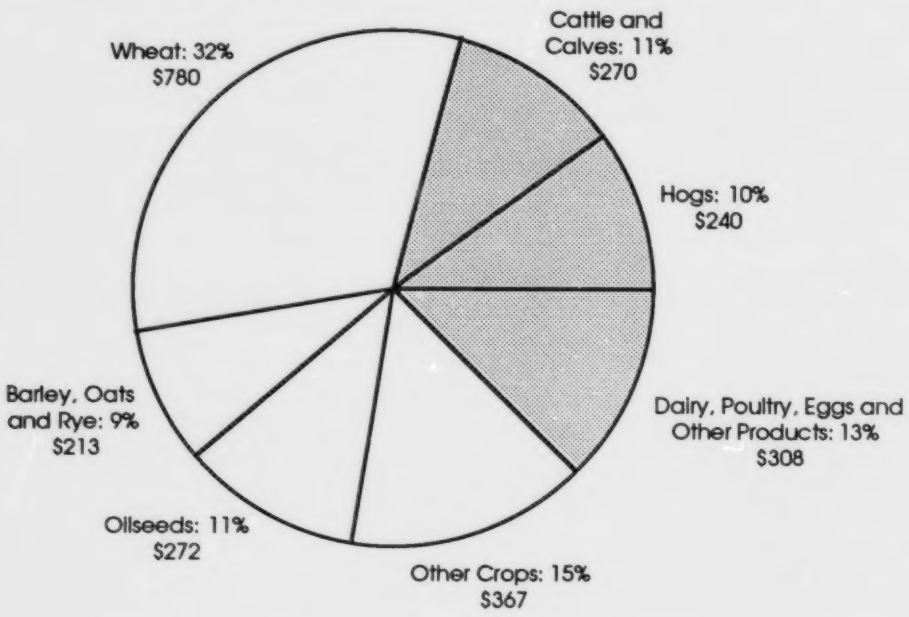
Note: Totals may not add due to rounding.

Source: Statistics Canada

- The value of manufacturing shipments in Manitoba decreased by 1.8% to $7.2 billion in 1990. This decline is less than the national decline of 3.0%, and the smallest decline of the five provinces that experienced a decline, which were British Columbia, down 5.1%; Newfoundland, down 4.9%; Ontario, down 4.6% and Quebec, down 3.0%.
- There were increases in the value of shipments of transportation equipment, up 8.6%; chemicals, up 7.9%; primary metals, up 6.4%; printing, publishing and allied, up 5.0%; and wood, furniture and fixtures, up 0.7%. Reductions were reported in food and beverages, down 2.5%; clothing, down 3.2%; paper and allied, down 4.6%; machinery, down 9.0%; fabricated metals, down 14.0%; and non-metallic minerals, down 15.9%.
- Employment in manufacturing fell 12.9% to 54,000 in 1990, down from 62,000 in 1989.

Agricultural Production, 1990

Millions of Dollars and Per Cent of Total



Note: Oilseeds include canola, flax and sunflower.
Other Crops include hay, $164 million, and potatoes, $52 million.

Note: Totals may not add due to rounding.

Source: Manitoba Department of Agriculture

- In 1990, the total value of agricultural production increased by 17% to $2.4 billion.
- The value of production of wheat rose 38% in 1990, while barley was up 4%. Oats declined 27%, and rye was down 21%. In volume of production terms, wheat was up 46%, barley was up 30%, oats were up 21% and rye was down 3%. These large advances in production of the major grains helped offset large declines in their prices.
- Oilseed production also advanced in 1990 with a value of production up 33%. This advance was due to a large increase in the volume of oilseeds produced but, as with the grains, prices were down.
- The value of total crop production (including grains, oilseeds and other crops) was up 25% to $1.6 billion.
- The value of livestock production advanced 5% to $818 million, with increases in poultry, cattle and calves, and hogs. Declines occurred in dairy and eggs, with other livestock products unchanged.

Farm Income, 1986 to 1991

	1986	1987	1988	1989	1990p	1991f
	(Millions of Dollars)					
Cash receipts						
Crops	1,067	806	871	893	1,030	920
Livestock	769	808	761	761	829	827
Government Payments	238	478	432	448	169	217
Total Cash Receipts	**2,075**	**2,092**	**2,064**	**2,102**	**2,028**	**1,964**
Less: Operating Expenses	1,403	1,388	1,435	1,532	1,565	1,540
Net Cash Income	**672**	**704**	**629**	**570**	**462**	**423**
Income-in-Kind	14	14	14	14	14	15
Less: Depreciation	271	265	272	281	285	275
Realized Net Income	**415**	**453**	**372**	**303**	**192**	**163**
Inventory Change	-37	-76	-219	141	354	-106
Total Net Income	**378**	**378**	**152**	**444**	**545**	**57**

p - Preliminary f - Forecast

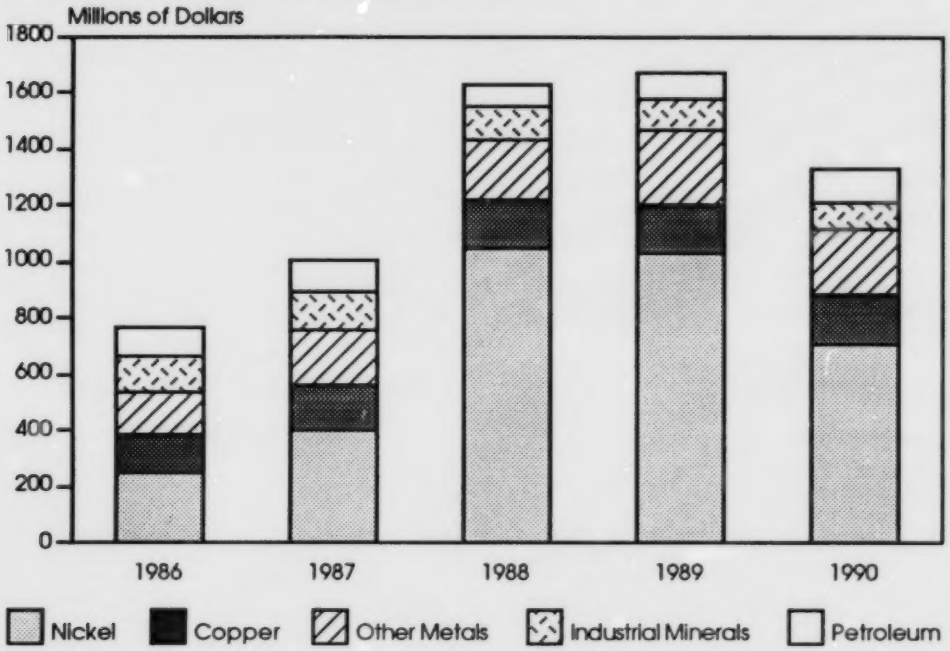
Source: Statistics Canada

- In 1990, total farm cash receipts decreased by 3.5% to $2.0 billion. Receipts from the sale of farm products actually increased, but this was offset by a large decrease in direct payments from government. Cash receipts for crops increased 15.3% to $1.0 billion, and cash receipts for livestock increased 8.9% to $829 million. Direct payments from government decreased 62.3% to $169 million. Included in direct payments are zero dollars under the Western Grain Stabilization Act (down from $31 million), $89 million for crop insurance (down $76 million), $81 million for other payments (down $171 million) and the termination of the Special Canadian Grains Program. As a result of these reductions in government programs and an increase in operating expenses of 2.2%, net cash income in 1990 declined by 18.9% to $462 million, the lowest level since 1981 (without adjusting for inflation).

- Lower prices for major grains and oilseeds continue to exert downward pressure on farm incomes despite record grain production in 1990. A significant increase in sales of the major grains and oilseeds counteracted declining prices, while increased prices for hogs and increased sales of cattle helped increase livestock receipts.

- Cash receipts for crops and livestock are expected to decrease in 1991, while direct payments from government are forecast to increase 28%, reflecting payouts under the GRIP and NISA programs. As a result, total cash receipts are forecast to decline by 3.2%, and net cash income is expected to decline 8.4% in 1991. These forecasts have a large margin of error since so much depends on growing conditions and world prices.

Mineral Production, 1986 to 1990



Source: Statistics Canada

- The total value of mineral production decreased 20% in 1990, to $1.3 billion, from $1.7 billion in 1989. A majority of this decrease is a result of declining world nickel prices which fell by 33.6%.

- Nickel production increased 5.1% to 68,203 tonnes in 1990, but because of the price decline, the value of production fell 31.5% to $707 million.

- Copper and zinc prices also fell in 1990. Copper production increased by 10.2%, but due to the lower prices, the value of production advanced only 4% to $178 million. Zinc production increased by 2.2%, but the value of production declined 8.5% to $142 million.

- Petroleum production advanced, and with increased prices, the value of production increased by 27.8% to $116 million. The value of industrial minerals production declined by 11.8% to $100 million; gold declined 41.7% to $34 million; and platinum group metals advanced 47.5% to $20 million.

- The level of mineral production in 1991 is currently expected to be comparable to 1990, but average yearly metal prices will be lower than in 1990. Mineral markets continue to be affected by slower economic growth throughout the world.

Cost of Owning a House, Selected Major Cities, July - December 1990

	Average Starter House Price	Property Taxes	Annual Heating	Monthly Carrying Cost
Regina	$ 57,670	$ 1,657	$ 560	$ 752
Winnipeg	**63,310**	**2,189**	**670**	**861**
Quebec	68,380	1,847	1,070	916
Edmonton	86,240	1,811	450	1,037
Halifax	81,640	1,438	1,070	1,013
Montreal	89,940	2,115	980	1,143
Calgary	101,190	1,814	440	1,184
Victoria	121,330	1,916	930	1,430
Ottawa	117,730	2,561	620	1,424
Hamilton	127,860	2,057	580	1,470
Vancouver	134,850	1,860	410	1,500
Toronto	179,640	2,203	570	1,934

Source: Canada Mortgage and Housing, January 1991

- According to information published by Canada Mortgage and Housing, Winnipeg has the second lowest starter house prices among the twelve major cities shown above.
- Winnipeg property taxes are above average for the group, and heating costs are below average. The monthly carrying cost, which includes mortgage payments, property taxes and heating, is second lowest.
- A family in Winnipeg requires an income of $32,300 in order to be able to carry the mortgage on the average starter house. The income required in Calgary is $44,390; in Vancouver, $56,260; and in Toronto, $72,530.
- In Winnipeg, 34.8% of renters can afford to buy a home. The proportion in Calgary is 24.7%; in Vancouver, 12.4%; and in Toronto, 10.7%.
- In Winnipeg, 48.4% of MLS houses for sale are in a price range that can be afforded by the average renter. The proportion in Calgary is 20.0%; in Vancouver, 5.7%; and in Toronto, 7.3%.

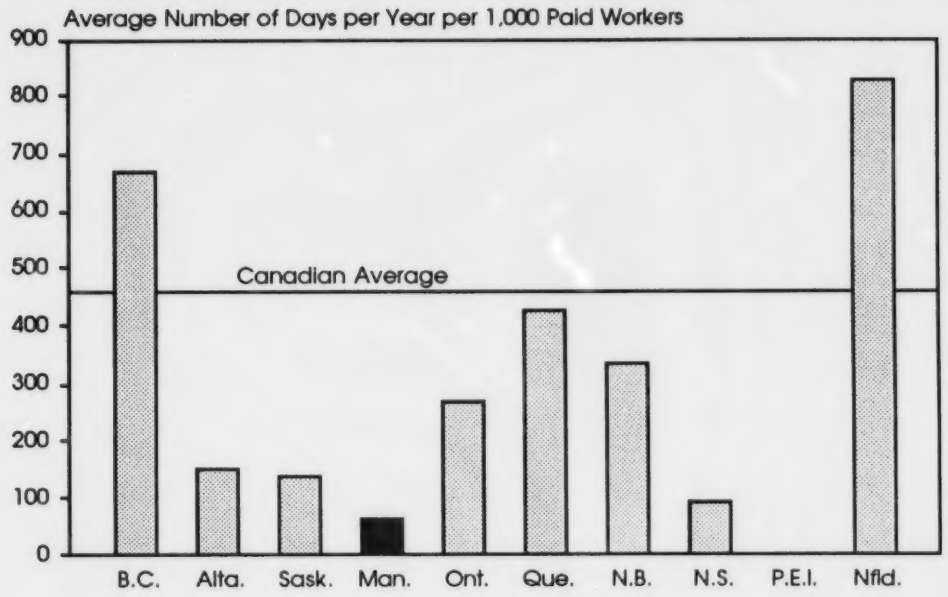
Office Space and Land Costs, Selected Major Cities, 1990

	Downtown Office Rents ($ per Square Foot)	Serviced Industrial Land Costs ($'000 per Acre)
Montreal	30.00 - 34.00	21 – 654
Ottawa-Carleton	24.00 - 27.00	90 – 250
Toronto	36.00 - 47.00	250 – 1,000
Winnipeg	**15.00 - 17.00**	**55 – 350**
Regina	15.50	25 – 150
Calgary	10.00 - 19.00	75 – 220
Edmonton	12.00 - 18.00	30 – 125
Vancouver	17.00 - 32.00	125 – 1,200

Source: Royal LePage Market Report, 1991

- Winnipeg is a relatively inexpensive place to live and do business. Office and industrial land costs in Winnipeg are considerably lower than in most major Canadian cities.
- Even at the low end of the market, downtown office space in Toronto is 2.4 times more expensive than in Winnipeg, and serviced industrial land is 4.5 times more expensive.
- Electricity for industrial use is also economical. In 1990, 400,000 kWh of electricity cost $15,000 in Winnipeg, which is almost the lowest rate on the continent. The same amount of electricity cost $16,000 in Calgary; $16,800 in Vancouver; $20,700 in Montreal; $22,000 in Toronto; $22,500 in Dallas, Texas; $29,600 in Atlanta, Georgia; and $34,300 in Chicago, Illinois.

Time Lost to Strikes and Lockouts, 1986 to 1990



- Manitoba's labour-management relations record is one of the best in Canada. The average time lost due to strikes and lockouts over the years 1986 to 1990 was 63 days per thousand workers. This is the second-best record in Canada and roughly one-seventh of the Canadian average of 457 days.

- In 1990, there were 22 days per thousand workers lost to work stoppages in Manitoba. The Canadian average, according to preliminary data from the other provinces, was 440.

MANITOBA ECONOMIC STATISTICS, 1986 to 1990

	1986	1987	1988	1989	1990
	(Millions of Dollars Except as Noted)				
GROSS DOMESTIC PRODUCT [1]	18,560	19,599	21,652	23,588	24,264
Real GDP	15,050	15,456	15,694	16,149	n.a.
SECTORS					
Agricultural Production [2]	1,996	1,952	1,790	2,087	2,450
Crops	1,203	1,136	963	1,307	1,632
Livestock	756	778	792	748	786
Manufacturing Shipments	5,661	6,229	6,772	7,294	7,166
Mineral Production	764	1,000	1,627	1,668	1,328
Electric Power Sales	618	608	631	696	737
Housing (Units)	7,699	8,174	5,455	4,084	3,297
Retail Trade [3]	5,530	5,870	6,071	6,322	6,319
INCOME					
Total Personal	16,305	17,324	18,597	19,889	21,183
Personal Disposable	13,564	14,259	15,296	16,299	16,951
Wages and Salaries	9,892	10,465	11,102	11,719	12,311
INVESTMENT					
Total	3,584	3,516	3,782	3,751	3,904
Non-Residential	2,584	2,417	2,680	2,897	3,110
Private	1,536	1,406	1,509	1,686	1,713
Public	1,048	1,011	1,171	1,211	1,397
Housing	1,001	1,099	1,102	854	793
POPULATION					
June (000's)	1,071	1,079	1,084	1,085	1,090
LABOUR MARKET					
Labour Force (000's)	526	531	535	538	545
Employment (000's)	486	492	494	498	505
Participation Rate (%)	66.4	66.5	66.7	67.0	67.6
Unemployment Rate (%)	7.7	7.4	7.8	7.5	7.2
CONSUMER PRICES					
(Index, 1986 = 100)	100.0	104.2	108.5	113.7	118.9

[1] At market prices.
[2] Includes crops, livestock and other.
[3] Data have been adjusted to remove the effect of the Federal Sales Tax which was replaced by the Goods and Services Tax on January 1, 1991. The GST is not included in retail sales data. The adjustment to pre-1991 data allows them to be compared with 1991 data.

p = preliminary 1990 data n.a. = not available

Source: Statistics Canada and Manitoba Bureau of Statistics

1986	1987	1988	1989	1990	
(Per Cent Change)					
4.8	5.6	10.5	8.9	2.9	**GROSS DOMESTIC PRODUCT**
2.7	2.7	1.5	2.9	n.a.	Real GDP
					SECTORS
-18.0	-2.2	-8.3	16.6	17.4	Agricultural Production
-30.1	-5.6	-15.2	35.7	24.9	Crops
10.4	2.9	1.8	-5.6	5.1	Livestock
2.0	10.0	8.7	7.7	-1.8	Manufacturing Shipments
-11.3	30.9	62.6	3.9	-20.4	Mineral Production
6.9	-1.6	3.8	10.3	5.9	Electric Power Sales
17.4	6.2	-33.3	-25.1	-19.3	Housing (Units)
4.7	6.1	3.4	4.1	0.0	Retail Trade
					INCOME
5.1	6.2	5.0	6.9	6.5	Total Personal
3.4	5.1	4.4	6.6	4.0	Personal Disposable
6.4	5.8	2.9	5.6	5.1	Wages and Salaries
					INVESTMENT
12.0	-1.9	7.6	-0.8	4.1	Total
8.5	-6.5	10.9	8.1	7.4	Non-Residential
16.1	-8.5	7.4	11.7	1.6	Private
-1.0	-3.5	15.8	3.4	15.4	Public
22.4	9.8	0.3	-22.5	-7.2	Housing
					POPULATION
0.7	0.7	0.5	0.1	0.5	June (000's)
					LABOUR MARKET
1.5	1.0	0.8	0.6	1.3	Labour Force (000's)
2.3	1.2	0.4	0.8	1.4	Employment (000's)
-	-	-	-	-	Participation Rate (%)
-	-	-	-	-	Unemployment Rate (%)
					CONSUMER PRICES
4.5	4.2	4.1	4.9	4.6	(Index, 1986 = 100)

Note: Per cent changes are based on unrounded data.

Budget Paper B

FINANCIAL STATISTICS

FINANCIAL STATISTICS

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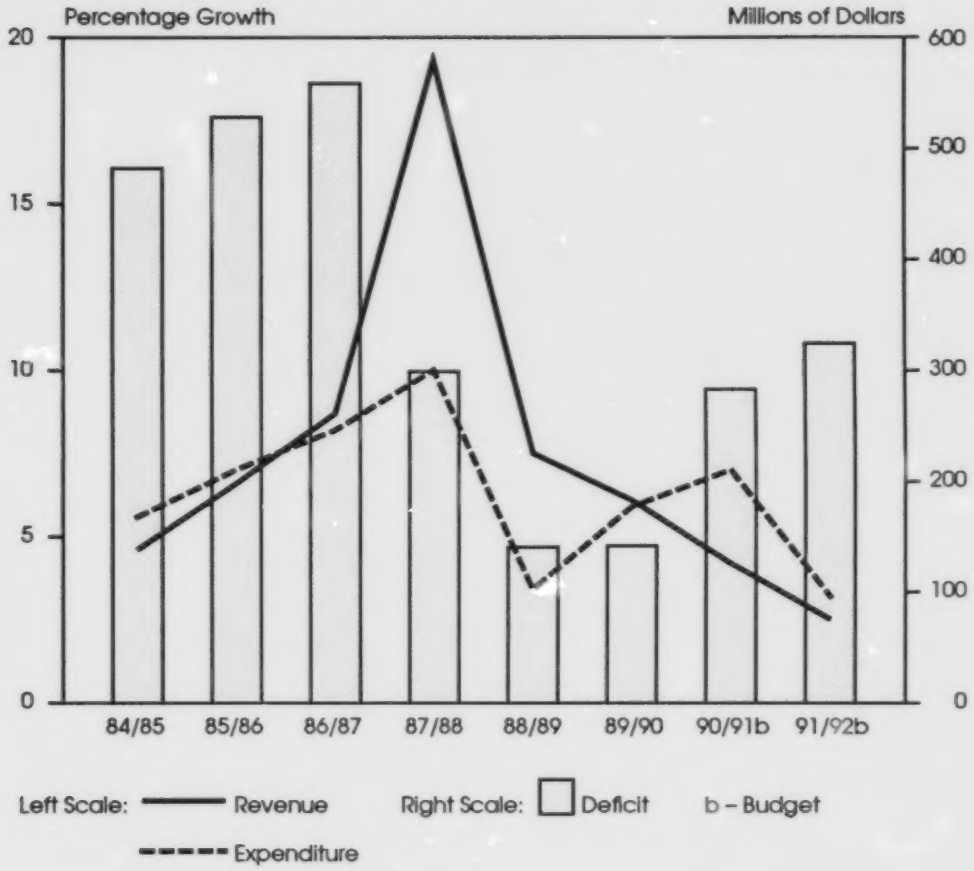
Summary of Revenue, Expenditure and Deficits

1984/85 to 1991/92



Comparative Statement of Budgetary Revenue, Expenditure and Deficit

1990/91 and 1991/92

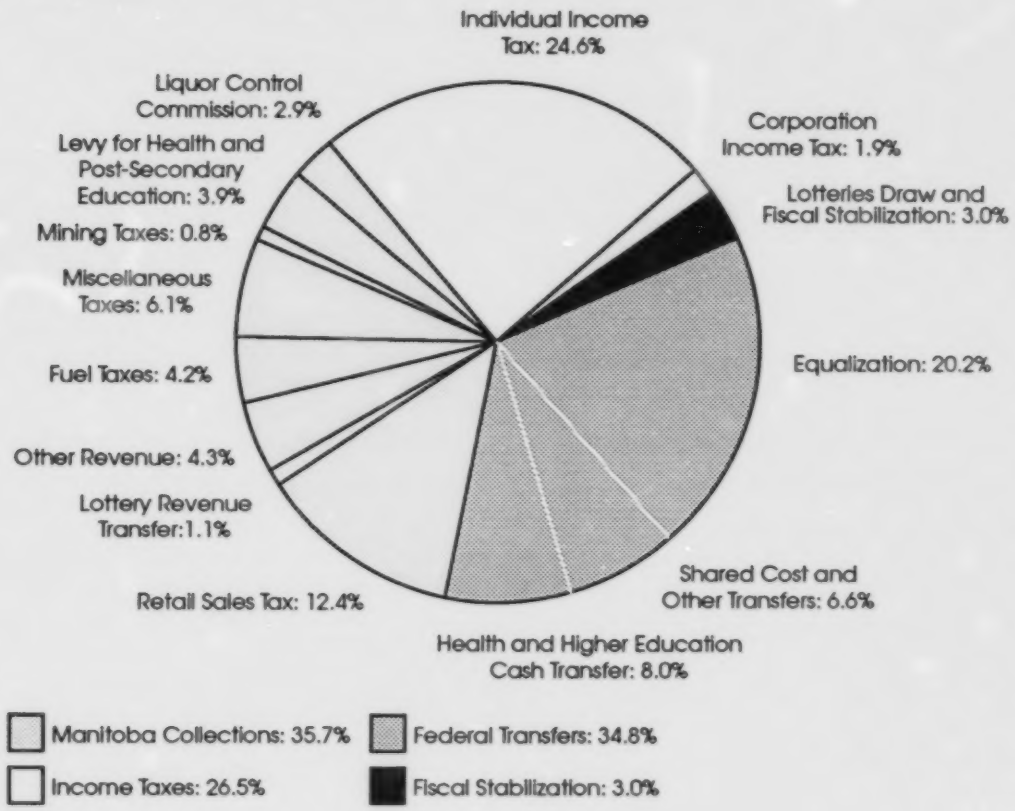
	1990/91 Budget	1991/92 Budget	Change	Change
	(Millions of Dollars)			(Per Cent)
Budgetary Expenditure	5,081	5,241	160	3.2
Budgetary Revenue	4,798	4,917	120	2.5
Deficit	283	324	41	14.3

Totals may not add due to rounding. Ratios computed using unrounded data.

Provincial Revenue, 1991/92

Major Sources

Per Cent of Total



Revenue by Source

1990/91 and 1991/92

1990/91 Budget ($M)	1990/91 3rd Q. ($M)		1991/92 Budget ($M)	Change From 1990/91 Budget ($M)	Budget (%)	3rd Q. ($M)	3rd Q. (%)
1,785	1,772	Manitoba Collections	1,757	(28)	(1.6)	(15)	(0.8)
1,301	1,221	Income Taxes	1,302	2	0.1	81	6.6
3,086	2,993	Total Own-Source Revenue	3,059	(26)	(0.9)	66	2.2
1,629	1,690	Federal Transfers	1,713	84	5.1	23	1.4
4,715	4,683	Total Revenue before Stabilization	4,772	58	1.2	89	1.9
83	83	Lotteries Draw & Fiscal Stabilization	145	62		62	
4,798	**4,766**	**Total Revenue**	**4,917**	**120**	**2.5**	**151**	**3.2**

Totals may not add due to rounding. Ratios computed using unrounded data.

Revenue Estimates

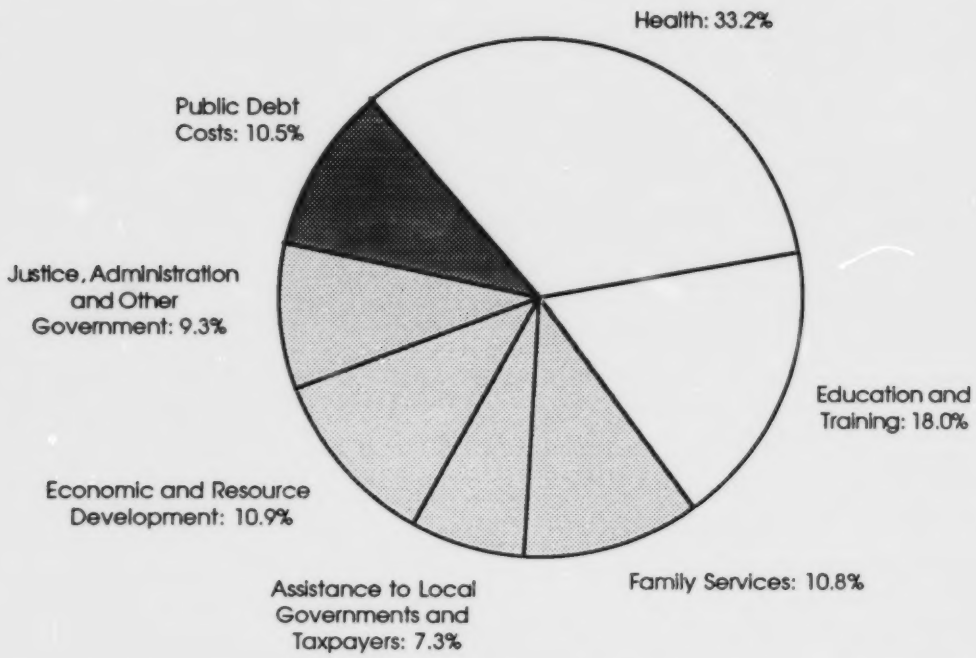
1990/91 Budget				1991/92 Estimate	% of Total Revenue
$1,784,768,700		**MANITOBA COLLECTIONS**		$1,756,921,800	35.7
		Taxes, Levies and Collections			
	$ 7,950,000	• Land Transfer Tax	$ 9,300,000		
	76,500,000	• Corporation Capital Tax	79,000,000		
	126,500,000	• Gasoline Tax	139,900,000		
	23,700,000	• Insurance Corporations Tax	24,300,000		
	180,000,000	• Levy for Health and Education	190,000,000		
	43,500,000	• Mining Tax	38,000,000		
	62,500,000	• Motive Fuel Tax	65,400,000		
	7,829,600	• Oil and Natural Gas Tax	5,383,200		
	630,000,000	• Retail Sales Tax	610,000,000		
	49,500,000	• Revenue Act, 1964, Part I	52,000,000		
	113,000,000	• Tobacco Tax	129,800,000		
	6,966,800	• Other Taxes	6,930,500		
	12,000,000	• Reciprocal Taxation Agreement	0		
	$ 1,339,946,400	Subtotal	$1,350,013,700		
		Fees and Other Revenue			
	$ 27,362,100	• Fines and Costs; Land Titles; and Other Legal	$ 27,628,200		
	5,657,200	• Minerals and Petroleum; and Other Energy and Mines	4,439,800		
	33,220,000	• Automobile and Motor Carrier Licences and Fees	35,927,000		
	10,408,000	• Drivers' Licences	10,439,000		
	34,123,800	• Water Resources	41,549,900		
	16,796,600	• Parks; Forestry; Fisheries; and Other Natural Resources	15,593,300		
	110,884,000	• All Other Manitoba Collections	74,398,800		
	$ 238,453,700	Subtotal	$ 209,976,000		
	$ 140,000,000	**Liquor Control Commission**	$ 145,100,000		
	$ 66,368,600	**Lotteries Funded Programs Transfer**	$ 51,832,100		
1,300,700,000		**INCOME TAXES**		1,302,500,000	26.5
	$ 173,000,000	• Corporation Income Tax	$ 91,400,000		
	1,127,700,000	• Individual Income Tax	1,211,100,000		
1,629,340,900		**FEDERAL TRANSFERS**		1,713,052,800	34.8
	$ 895,900,000	**Equalization**	$ 994,700,000		
	$ 427,300,000	**Health and Higher Education Cash Transfer**	$ 395,000,000		
		Shared-Cost and Other Transfers			
	$ 222,124,600	• Canada Assistance Plan	$ 243,407,800		
	84,016,300	• Other	79,945,000		
	$ 306,140,900	Subtotal	$ 323,352,800		
$4,714,809,600		**TOTAL REVENUE BEFORE STABILIZATION**		$4,772,474,600	
$ 83,000,000		**Transfer from Fiscal Stabilization Fund**		$ 125,000,000	2.5
0		**Transfer from Lottery Revenues**		20,000,000	0.4
$4,797,809,600		**TOTAL REVENUE**		**$4,917,474,600**	**100.0**

Totals may not add due to rounding.

Provincial Expenditure, 1991/92

Major Categories

Per Cent of Total Estimates


Health: 33.2%
Public Debt Costs: 10.5%
Justice, Administration and Other Government: 9.3%
Education and Training: 18.0%
Economic and Resource Development: 10.9%
Family Services: 10.8%
Assistance to Local Governments and Taxpayers: 7.3%

Program Expenditure Estimates, 1991/92

Operating and Capital

	Operating Expenditure	Capital Expenditure	Total Program Expenditure
	(Millions of Dollars)		
Health	1,711	50	1,761
Education and Training	921	36	957
Family Services	571	—	571
Assistance to Local Governments and Taxpayers	361	24	385
Economic and Resource Development	447	131	578
Justice, Administration and Other Government	457	38	495
Minor Capital	(26)	26	0
Total	**4,442**	**305**	**4,747**

Expenditure Estimates

1990/91 Budget			1991/92 Estimate	% of Total Expenditure
$1,671,312,800	**Health**		$1,761,190,400	33.2
933,236,300	**Education and Training**		956,532,500	18.0
534,244,200	**Family Services**		571,118,800	10.8
388,595,700	**Assistance to Local Governments and Taxpayers**		385,393,200	7.3
$ 64,523,900	• Rural Development	$62,467,900		
73,071,800	• Urban Affairs	68,025,300		
251,000,000	• Tax Credit Programs	254,900,000		
595,292,500	**Economic and Resource Development**		578,223,100	10.9
$ 112,528,500	• Agriculture	$112,520,500		
12,249,300	• Energy and Mines	9,697,400		
13,168,100	• Environment	13,941,100		
234,831,800	• Highways and Transportation	229,239,200		
51,232,300	• Housing	50,796,400		
40,692,100	• Industry, Trade and Tourism	40,665,300		
97,859,400	• Natural Resources	83,974,600		
19,597,400	• Northern Affairs	16,969,400		
6,162,600	• Canada-Manitoba Enabling Vote	9,348,200		
5,600,000	• Allowance for Losses	7,700,000		
1,371,000	• Environmental Innovations Fund	1,371,000		
0	• Employee Ownership Fund	2,000,000		
481,415,500	**Justice, Administration and Other Government**		494,528,000	9.3
$ 21,212,700	• Legislation	$13,653,900		
3,409,200	• Executive Council	3,184,200		
4,717,600	• Civil Service	4,016,900		
70,977,900	• Employee Benefits	77,851,200		
4,112,400	• Community Support Programs	5,012,800		
8,982,600	• Co-operative, Consumer and Corporate Affairs	8,780,900		
59,498,800	• Culture, Heritage and Citizenship	53,772,100		
23,052,700	• Finance—Departmental Programs	21,442,900		
12,839,100	• Fitness and Sport	4,054,100		
82,522,800	• Government Services (excl. MPI)	87,305,000		
152,230,600	• Justice	158,235,100		
16,124,100	• Labour	16,124,100		
277,000	• Seniors' Directorate	281,500		
958,000	• Status of Women	813,300		
1,000,000	• Decentralization	5,000,000		
14,500,000	• Emergency Expenditures	10,000,000		
5,000,000	• Internal Reform	25,000,000		
$4,604,097,000	**Total Program Expenditure**		**$4,746,986,000**	**89.5**
537,066,600	**Public Debt Costs**		554,466,600	10.5
$ 475,600,000	• Statutory	$493,000,000		
61,466,600	• Manitoba Properties Inc.	61,466,600		
$5,141,163,600	**Total Expenditure Estimates**		**$5,301,452,600**	**100.0**
(60,000,000)	**Less: Year-End Lapse**		(60,000,000)	
$5,081,163,600	**TOTAL BUDGETARY EXPENDITURE**		**$5,241,452,600**	

Incremental Capital Authority Requirements for Non-Budgetary Programs, 1991/92

The Loan Act, 1991

The Manitoba Hydro-Electric Board — Conawapa and Bipole III		$500,000,000
The Manitoba Hydro-Electric Board		245,300,000
The Manitoba Telephone System		33,000,000
Hudson Bay Mining and Smelting Co. Limited, modernization project		30,000,000
Business Support		10,975,000
Industrial Opportunities Program	$10,975,000	
Manitoba Hazardous Waste Management Corporation		5,044,700
The Manitoba Water Services Board		2,000,000
		$826,319,700

Schedule of Exisiting Capital Authority to Lapse, 1991/92

Manitoba Development Corporation	$ 2,017,400
Energy Conservation Loan Fund	379,900
	$ 2,397,300

Non-Budgetary Capital Program, 1991/92

The Manitoba Hydro-Electric Board	$532,900,000
The Manitoba Telephone System	196,600,000
The Manitoba Housing and Renewal Corporation	67,669,500
The Manitoba Agricultural Credit Corporation	50,000,000
Hudson Bay Mining and Smelting Co. Limited, modernization project	36,000,000
Business Support	23,345,900
The Manitoba Farm Mediation Board	8,500,000
The Manitoba Water Services Board	8,044,200
Manitoba Development Corporation	7,403,000
Miscellaneous Corporations and Agencies	17,294,500
	$947,757,100

Province of Manitoba Statement of Valuation and Purpose of Direct and Guaranteed Debt Outstanding

(Thousands of Dollars)

As at December 31, 1990 (with comparative figures for March 31, 1990)

Canadian Dollar Equivalent at Date of Issue Dec. 31/90	Canadian Dollar Equivalent at Date of Issue March 31/90	Increase (Decrease) Dec. 31/90 over March 31/90		Canadian Dollar Valuation (Note 1) Dec. 31/90	Canadian Dollar Valuation (Note 1) March 31/90	Increase (Decrease) Dec. 31/90 over March 31/90
			Direct Debt Payable in:			
4,738,458	4,329,341	409,117	Canadian Dollars	4,738,458	4,329,341	409,117
1,796,716	1,707,967	88,749	Foreign Issues Swapped to Canadian Dollars	1,810,941	1,707,837	103,104
3,438,918	2,515,133	923,785	U.S. Dollars	3,331,846	2,421,855	909,991
1,161,621	1,180,958	(19,337)	Foreign Issues Swapped to U.S. Dollars	1,224,480	1,270,035	(45,555)
171,991	8,476	163,515	Swiss Francs	190,890	11,711	179,179
108,380	209,270	(100,890)	Japanese Yen	176,290	287,590	(111,300)
11,416,084	9,951,145	1,464,939	Total Direct Debt	11,472,905	10,028,369	1,444,536
			Guaranteed Debt Payable in:			
1,138,652	1,208,344	(69,692)	Canadian Dollars	1,138,652	1,208,344	(69,692)
54,280	54,280	-	Foreign Issues Swapped to Canadian Dollars	59,816	59,816	-
844,051	718,649	125,402	U.S. Dollars	962,469	846,858	115,611
2,036,983	1,981,273	55,710	Total Guaranteed Debt	2,160,937	2,115,018	45,919
13,453,067	11,932,418	1,520,649	**Total Direct and Guaranteed Debt**	13,633,842	12,143,387	1,490,455
2,218,593	2,200,639	17,954	Less: Sinking Fund Investments	2,218,593	2,200,639	17,954
11,234,474	9,731,779	1,502,695	**Net Direct and Guaranteed Debt** (Note 2)	11,415,249	9,942,748	1,472,501

Note 1: The Canadian Dollar Valuation is calculated using the foreign currency exchange rates in effect at December 31 and March 31 adjusted for any foreign currency contracts entered into for settlement after these dates.

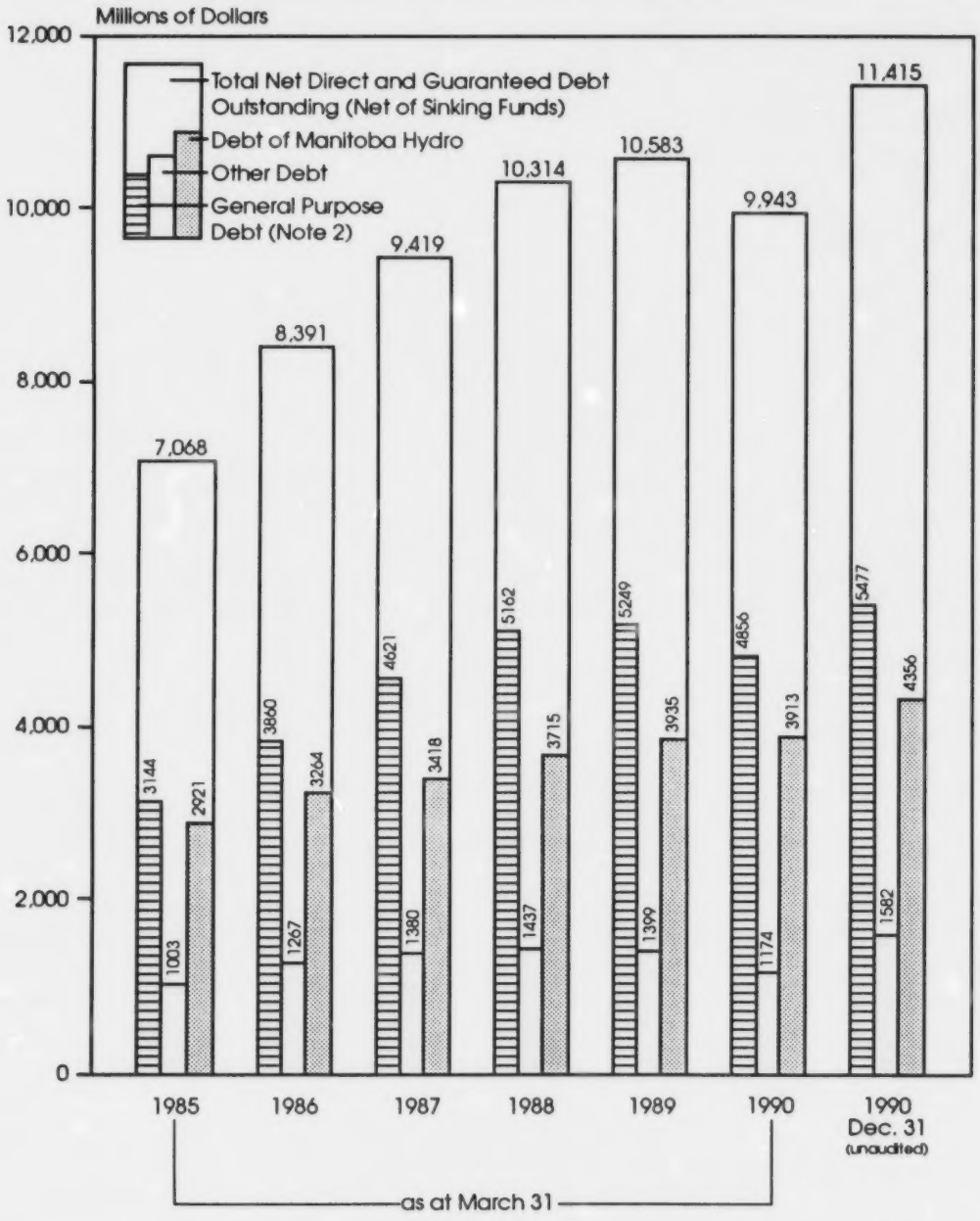
Note 2: The above debt was issued for the following purposes:

	December 31,1990 ($ Thousands)	December 31,1990 (Per Capita)	March 31,1990 ($ Thousands)	March 31,1990 (Per Capita)
General Government Programs (Note 3)	5,477,555	5,026	4,855,637	4,479
The Manitoba Hydro-Electric Board	4,356,079	3,997	3,912,611	3,610
Other	1,581,615	1,451	1,174,500	1,083
	11,415,249	10,474	9,942,748	9,172

Note 3: Includes $364 million ($372 million as at March 31, 1990) of cumulative redeemable retractable 9 1/4% preferred shares issued by Manitoba Properties Inc., which are guaranteed by the Province. Consolidation with the Provincial Accounts would require Manitoba Properties Inc. debt be reclassified as Direct Province of Manitoba debt.

Note 4: Per capita data is based upon population figures at June 1, 1990 and June 1, 1989 as reported by Statistics Canada.

Province of Manitoba
Net Direct and Guaranteed Debt, by Purpose

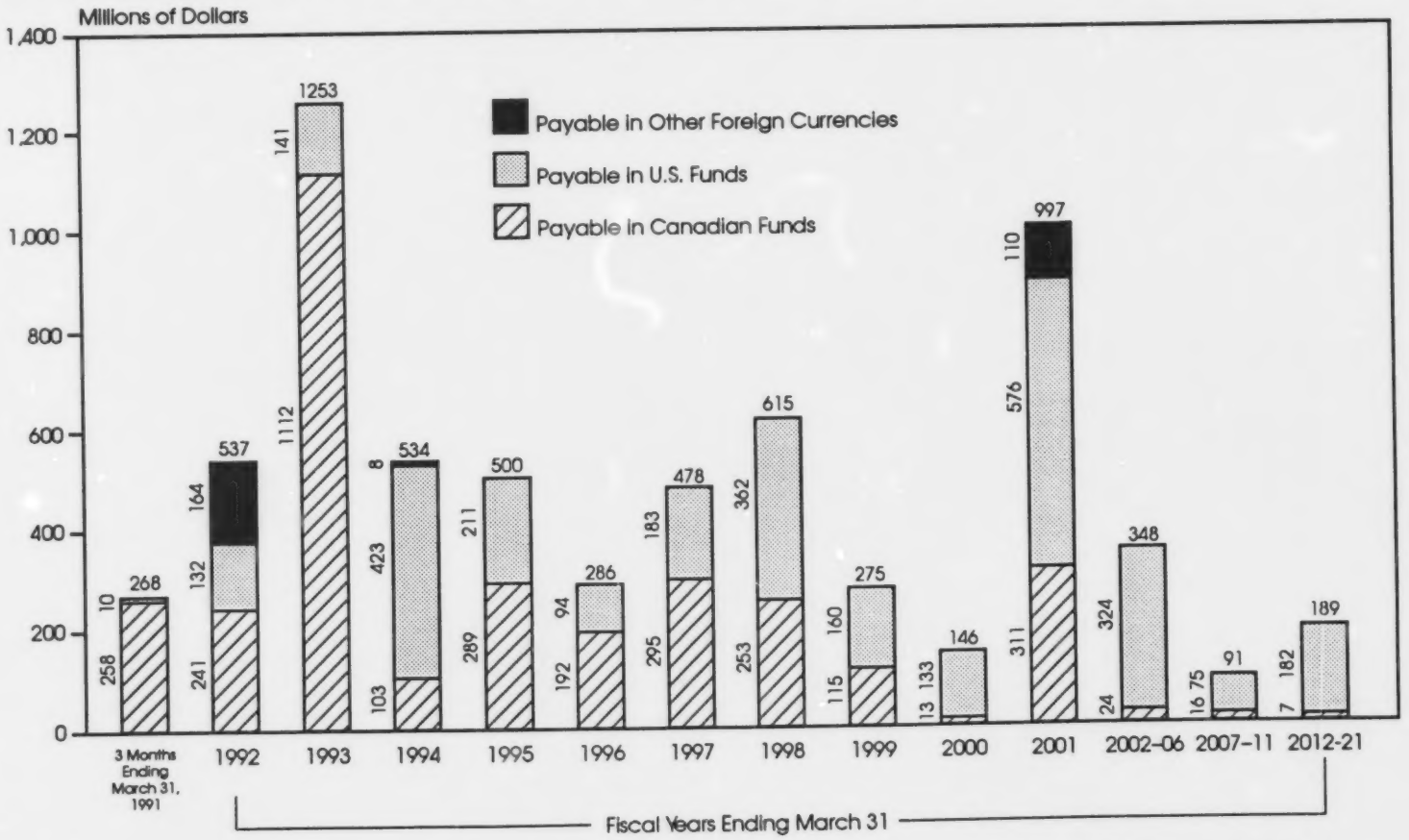


Note 1: The above chart indicates the Total Net Direct and Guaranteed Debt of the Province of Manitoba (after deducting accumulated Sinking Funds) using foreign exchange rates in existence on the dates reflected above.

Note 2: Includes as General Purpose Debt, the cumulative redeemable retractable 9 1/4% preferred shares issued by Manitoba Properties Inc., which are guaranteed by the Province.

Province of Manitoba Direct and Guaranteed Debt

Net Refunding Requirements by Fiscal Year by Currency as at December 31, 1990



Note 1: The above chart indicates the amount which the Province of Manitoba will have to borrow for the purpose of repaying Direct and Guaranteed Debt outstanding at December 31, 1990 (based on the foreign exchange rates in existence on December 31, 1990).

Note 2: The Province of Manitoba has four retractable debenture issues and one extendable debenture issue outstanding at December 31, 1990. The maturity date of these issues has been assumed to be the maturity date occurring if the holders of the securities were to consider utilizing

MANITOBA FINANCIAL STATISTICS, 1982/83 TO 1991/92

	1982/ 1983	1983/ 1984	1984/ 1985	1985/ 1986	1986/ 1987
	(Millions of Dollars)				
REVENUE					
Manitoba Collections	804.3	1,052.2	1,110.5	1,233.9	1,346.2
Income Taxes	685.3	707.1	716.5	776.2	879.5
Federal Transfers	919.4	1,037.9	1,097.6	1,106.5	1,160.9
Fiscal Stabilization	n/a	n/a	n/a	n/a	n/a
Total	2,409.0	2,797.2	2,924.6	3,116.6	3,386.5
EXPENDITURE					
Program Expenditure	2,681.8	2,986.4	3,159.2	3,332.2	3,535.1
Public Debt Costs (Incl. MPI)	161.8	239.7	248.0	312.7	410.5
Total	2,843.6	3,226.1	3,407.2	3,644.9	3,945.6
DEFICIT	434.6	428.9	482.5	528.3	559.1
NET DIRECT AND GUARANTEED DEBT					
General Purpose	1,857.2	2,512.0	3,144.1	3,860.5	4,621.0
Hydro	2,860.8	2,885.6	2,921.2	3,263.7	3,417.5
Other Debt	992.3	952.7	1,003.2	1,267.3	1,380.8
Total	5,710.3	6,350.3	7,068.5	8,391.5	9,419.3
ANNUAL CHANGE					
	(Per Cent Change)				
Manitoba Collections	12.6	30.8	5.5	11.1	9.1
Income Taxes	8.9	3.2	1.3	8.3	13.3
Federal Transfers	9.8	12.9	5.8	0.8	4.9
Total Revenue	10.5	16.1	4.6	6.6	8.7
Program Expenditure	15.7	11.4	5.8	5.5	6.1
Total Expenditure	16.9	13.5	5.6	7.0	8.2
Deficit	73.1	(1.3)	12.5	9.5	5.8
Net General Purpose Debt	29.4	35.3	25.2	22.8	19.7
Total Net Debt	10.6	11.2	11.3	18.7	12.2

n/a - not applicable

Note: Totals may not add due to rounding.
Refer to Public Accounts of Manitoba for applicable statements on accounting policy.

1987/ 1988	1988/ 1989	1989/ 1990	1990/ 1991b	1991/ 1992b	
		(Millions of Dollars)			
					REVENUE
1,569.7	1,743.9	1,765.1	1,784.8	1,756.9	Manitoba Collections (1)
1,156.1	1,231.0	1,183.4	1,300.7	1,302.5	Income Taxes
1,313.0	1,568.1	1,657.3	1,629.3	1,713.1	Federal Transfers
n/a	(200.0)	0.0	83.0	145.0	Lotteries Draw & Fiscal Stabilization
4,038.8	4,343.0	4,605.8	4,797.8	4,917.5	**Total** (1)
					EXPENDITURE
3,848.0	4,043.7	4,262.2	4,544.1	4,687.0	Program Expenditure (1)
490.4	440.6	486.0	537.1	554.5	Public Debt Costs (Incl. MPI)
4,338.4	4,484.3	4,748.2	5,081.2	5,241.5	**Total** (1)
299.6	141.3	142.4	283.4	324.0	**DEFICIT**
					NET DIRECT AND GUARANTEED DEBT
5,162.1	5,249.0	4,855.6	5,341.0	5,635.3	General Purpose
3,714.6	3,935.2	3,912.6	4,135.7	4,713.1	Hydro
1,437.0	1,399.1	1,174.5	1,587.3	1,735.0	Other Debt
10,313.7	10,583.3	9,942.7	11,064.8	12,083.4	**Total**
					ANNUAL CHANGE
		(Per Cent Change)			
16.6	11.1	1.2	1.1	(1.6)	Manitoba Collections
31.4	6.5	(3.9)	9.9	0.1	Income Taxes
13.1	19.4	5.7	(1.7)	5.1	Federal Transfers
19.3	7.5	6.1	4.2	2.5	Total Revenue
8.9	5.1	5.4	6.6	3.1	Program Expenditure
10.0	3.4	5.9	7.0	3.2	Total Expenditure
(46.4)	(52.8)	0.8	99.0	14.3	Deficit
11.7	1.7	(7.5)	10.0	5.5	Net General Purpose Debt
9.5	2.6	(6.1)	11.3	9.2	Total Net Debt

b - Budget

Note 1: Manitoba Collections, Total Revenue, Program and Total Expenditure for 1989/90 and subsequent years include provision for lotteries funded programs.

... continued

MANITOBA FINANCIAL STATISTICS, 1982/83 TO 1991/92

	1982/ 1983	1983/ 1984	1984/ 1985	1985/ 1986	1986/ 1987
			(Per Cent)		
PER CENT OF GDP					
Revenue	17.2	18.8	17.7	17.6	18.3
Expenditure	20.3	21.6	20.6	20.6	21.4
Deficit	3.1	2.9	2.9	3.0	3.0
Net General Purpose Debt	13.2	16.8	19.0	21.8	25.0
Total Net Debt	40.7	42.6	42.8	47.4	51.0
PER CENT OF REVENUE					
Manitoba Collections	33.4	37.6	38.0	39.6	39.8
Income Taxes	28.4	25.3	24.5	24.9	26.0
Federal Transfers	38.2	37.1	37.5	35.5	34.3
Fiscal Stabilization Fund	n/a	n/a	n/a	n/a	n/a
PER CENT OF EXPENDITURE					
Program Expenditure	94.3	92.6	92.7	91.4	89.6
Public Debt Costs (Incl. MPI)	5.7	7.4	7.3	8.6	10.4
Deficit	15.3	13.3	14.2	14.5	14.2
DOLLARS PER CAPITA			(Dollars)		
Revenue	2,331	2,675	2,772	2,929	3,161
Expenditure	2,752	3,085	3,229	3,426	3,683
Deficit	421	410	457	496	522
Net General Purpose Debt	1,797	2,402	2,980	3,628	4,314
Total Net Debt	5,526	6,073	6,699	7,887	8,793
Memorandum Items					
Population (000's)	1,033	1,046	1,055	1,064	1,071
GDP at market prices ($ Millions)	14,019	14,917	16,509	17,706	18,468

Note: Totals may not add due to rounding.
Ratios computed using unrounded data.

Source: Manitoba Department of Finance

1987/ 1988	1988/ 1989	1989/ 1990	1990/ 1991b	1991/ 1992b	
		(Per Cent)			
					PER CENT OF GDP
20.6	20.1	19.5	19.8	19.6	Revenue
22.1	20.7	20.1	20.9	20.9	Expenditure
1.5	0.7	0.6	1.2	1.3	Deficit
26.3	24.2	20.6	22.0	22.5	Net General Purpose Debt
52.6	48.9	42.2	45.6	48.2	Total Net Debt
					PER CENT OF REVENUE
38.9	40.2	38.3	37.2	35.7	Manitoba Collections
28.6	28.3	25.7	27.1	26.5	Income Taxes
32.5	36.1	36.0	34.0	34.8	Federal Transfers
n/a	(4.6)	0.0	1.7	2.9	Fiscal Stabilization Fund
					PER CENT OF EXPENDITURE
88.7	90.2	89.8	89.4	89.4	Program Expenditure
11.3	9.8	10.2	10.6	10.6	Public Debt Costs (Incl. MPI)
6.9	3.2	3.0	5.6	6.2	Deficit
		(Dollars)			**DOLLARS PER CAPITA**
3,743	4,006	4,245	4,402	4,487	Revenue
4,021	4,136	4,376	4,662	4,782	Expenditure
278	130	131	260	296	Deficit
4,784	4,842	4,475	4,900	5,142	Net General Purpose Debt
9,559	9,762	9,164	10,151	11,025	Total Net Debt
					Memorandum Items
1,079	1,084	1,085	1,090	1,096	Population (000's)
19,599	21,652	23,588	24,264	25,089	GDP at market prices ($ Millions)

b - Budget

Budget Paper C

TAXATION ADJUSTMENTS

TAXATION ADJUSTMENTS

TAXATION ADJUSTMENTS

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Summary of 1991 Tax and Related Program Changes

	1991/92	Full Year
	(Millions of Dollars)	
Mineral Exploration Incentive	(0.0)	(1)
Tobacco Tax	10.8	13.0
Fuel Taxes	21.6	23.5
Environmental Protection Tax	0.1	0.1
New Small Business Tax Holiday	0.0	0.5
Corporation Capital Tax	0.0	(2)
Payroll Tax	0.0	0.0
Net Revenue	32.5	37.1

[1] The incentive has a one-time cost of $14.5 million spread over two years beginning in 1992/93.

[2] This measure will reduce debt-servicing costs by $3.5 million annually.

■ Tobacco Tax

(1991/92 Revenue Impact: +$10.8 million)

The tobacco tax rate will be increased 1¢, from 7¢ to 8¢ per cigarette. The tax rate on fine-cut tobacco will be raised from 4.3¢ per gram to 5.3¢ per gram. The tax rate on pre-portioned tobacco sticks will be increased to an amount equivalent to the tax on cigarettes. These changes take effect midnight, May 31, 1991.

The full-year revenue increase associated with these measures is $13 million.

Inquiries regarding tobacco taxation should be directed to:

Taxation Division
Department of Finance
Room 700, Norquay Building
Winnipeg, Manitoba
R3C 0P8
Telephone: (204) 945–3297

■ Fuel Taxes

(1991/92 Revenue Impact: +$21.6 million)

The general tax rate on gasoline will increase 1.5¢ per litre to 10.5¢ per litre. Manitoba's new rate ranks fourth lowest among the provinces.

The tax on motive fuel will increase 1¢ per litre, from 9.9¢ per litre to 10.9¢ per litre. The taxes on propane and aviation fuel will remain at present rates.

The changes above are effective midnight, April 30, 1991.

The full-year revenue increase associated with these measures is $23.5 million.

Inquiries regarding fuel taxation should be directed to:

Taxation Division
Department of Finance
Room 700, Norquay Building
Winnipeg, Manitoba
R3C 0P8
Telephone: (204) 945–3297

■ Environmental Protection Tax

(1991/92 Revenue Impact: +$0.1 million)

The Environmental Protection Tax applies a levy on alcoholic beverage containers without a deposit/return system.

The tax rate applied to aluminum and other cans will be increased from 5¢ to 10¢, effective May 1, 1991. The new rate is the same as the deposit charged on returnable cans.

The full-year increase associated with the change above is $0.1 million.

Inquiries related to the Environmental Protection Tax should be directed to:

Liquor Control Commission
Purchasing Department
Box 1023
Winnipeg, Manitoba
R3C 2X1
Telephone: (204) 284–2501

■ Corporation Capital Tax

The Manitoba Corporation Capital Tax Act requires that taxable corporations remit a single instalment equal to its estimated capital tax 15 days prior to the company's year end. Any balance payable is due upon the filing of the corporate income tax return. Other provinces generally require monthly instalments.

Starting July 1, 1991, companies paying over $1,200 annually will be required to make quarterly instalments. The change to quarterly instalments will affect an estimated 4,300 of the approximately 5,000 companies that presently pay Manitoba Corporation Capital Tax.

This change will reduce Manitoba's debt-servicing costs by approximately $3.5 million annually.

Inquiries related to the Corporation Capital Tax should be directed to:

Taxation Division
Department of Finance
Room 300, Norquay Building
Winnipeg, Manitoba
R3C 0P8
Telephone: (204) 945–5705

■ Manitoba New Small Business Tax Reduction

(1991/92 Revenue Impact: nil)

The New Small Business Tax Reduction, introduced in the August 1988 Budget, provides income tax relief to new small business corporations for the first five taxation years. The relief applies to corporations incorporated under The Corporations Act, The Co-operatives Act, or The Credit Unions and Caisses Populaires Act from August 8, 1988 to December 31, 1991.

The eligibility period for new corporations will be extended by one year to December 31, 1992.

In their first year of operation, eligible new small businesses will be exempt from Provincial Corporation Income Tax on the first $200,000 of active business income. For the next four years, they pay tax at a reduced rate.

Eligibility is being tightened to focus benefits under this program to genuinely new small businesses. New businesses which would otherwise qualify and which purchase assets from an existing business will not qualify for the program unless:

- the previous business is bankrupt, or has been out of operation for at least six months; or
- at least 40% of the new business' capital assets are from sources other than the existing business.

The new rules are effective April 17, 1991.

This program is administered by the Manitoba Department of Finance and by Revenue Canada.

Inquiries may be directed to:

Manitoba Tax Assistance Office
Room 309, Norquay Building
Winnipeg, Manitoba
R3C 0P8
Telephone: (204) 943–3401 in Winnipeg,
1–800–782–0771 outside Winnipeg (toll free)

■ Manitoba Mineral Exploration Incentive

(1991/92 Revenue Impact: nil)

The mining, oil and gas sectors are important contributors to Manitoba's economy. Investment and exploration activities in these areas have declined since peaking in 1987.

A significant number of mineral exploration flow-through share issues are marketed in Manitoba. A number of Manitobans invest in these instruments for mineral exploration. Few, if any, of these issues are for exploration activity in Manitoba.

In an effort to stimulate mining, oil and gas exploration activity within Manitoba, and to encourage Manitobans and residents of other provinces to invest in our economy, the Government of Manitoba is offering investors a 25% grant for eligible investments in authorized exploration activities. The grant will supplement existing federal flow-through share incentives available to qualifying investors.

This incentive targets new exploration activities by junior exploration companies. Eligible exploration activities must occur within Manitoba. Only investments in ventures financed under a flow-through share agreement or limited partnership interest will qualify.

The marketing of the flow-through share and/or limited partnership agreement instruments will be carried out by registered non-Crown Manitoba Mineral Exploration Investment Corporations. The Department of Energy and Mines will consider applications for registration beginning January 1, 1992. These Corporations will sell the investments and use the funds raised to sponsor junior mining, oil and gas exploration activity in Manitoba.

Eligible flow-through shares and limited partnership interests issued by Manitoba Mineral Exploration Investment Corporations will be limited to $50 million. Total cost to the Province is estimated at $14.5 million over the lifetime of this program.

The incentive will be administered by the Department of Energy and Mines.

Initial inquiries about the Manitoba Mineral Exploration Incentive may be directed to:

Federal-Provincial Relations and Research Division
Department of Finance
203–333 Broadway
Winnipeg, Manitoba
Telephone: (204) 945–3757

■ Manitoba Tax Credits

(1991/92 Revenue Impact: nil)

The Manitoba Property Tax Credit and Cost-of-Living Tax Credit partially offset the costs associated with housing and retail sales tax paid by lower-income Manitobans. Manitoba social allowance benefits reflect housing costs and other necessities, including property and federal and provincial sales taxes. Social allowance recipients are also eligible for Manitoba Tax Credits if they file an income tax return.

Beginning next January social allowance rates will be increased to include Manitoba Tax Credit benefits. Individuals who receive social assistance for the full year will no longer qualify for Manitoba Cost-of-Living and Property Tax Credits. The change will affect approximately one-half of the individuals who currently receive social assistance.

The savings in the costs of the tax credit programs as a result of this change will accrue to the Province in 1992/93, and will be used to increase social allowance benefits. People on social allowance for the full year will no longer have to complete the annual Manitoba Tax Credit application form. Benefits will flow on a more timely basis, and discounters will no longer have access to social allowance recipients' provincial tax credits.

The tax credit programs are administered by Revenue Canada.

Inquiries may be directed to:

Federal-Provincial Relations and Research Division
Department of Finance
203–333 Broadway
Winnipeg, Manitoba
Telephone: (204) 945–3757

■ Payroll Tax

Employers with annual payrolls up to and including $600,000 are exempt from the Levy for Health and Post-Secondary Education. Employers with payrolls between $600,000 and $1,200,000 pay the tax at a reduced rate.

To ensure the payroll tax relief is applied fairly and consistently among businesses, the payroll tax exemption and reduction will be prorated among businesses which are associated, as defined in Section 256 of the federal Income Tax Act.

This measure will change affected company payroll taxes for the year 1992.

Inquiries related to the payroll tax should be directed to:

Taxation Division
Department of Finance
Room 706, Norquay Building
Winnipeg, Manitoba
R3C 0P8
Telephone: (204) 945–4204

Interprovincial Comparison of Major Tax Rates

	B.C.	Alta.	Sask.	Man.	Ont.	Que.	N.B	N.S	P.E.I.	Nfld.
Personal Income Tax: [1, 2]	51.50	**46.50**	50.00	**52.00**	53.00	*	**60.00**	59.50	**59.00**	62.00
Flat Income Tax [1, 3]	—	**0.50**	2.00	**2.00**	—	*	—	—	—	—
Surtax [1]	No	**Yes**	Yes	**Yes**	Yes	*	**Yes**	Yes	**Yes**	No
Corporation Income Tax:										
Small [4]	9.00	**6.00**	10.00	**10.00**	10.00	3.45	**9.00**	10.00	**10.00**	10.00
Large	14.00	**15.50**	15.00	**17.00**	15.50	6.33	**17.00**	16.00	**15.00**	17.00
Capital Tax: [5]	—	—	0.50	**0.30**	0.30	0.52	—	—	—	—
Banks	2.00	**2.00**	3.00	**3.00**	0.80	1.04	**3.00**	3.00	**3.00**	3.00
Employer Payroll Tax	—	—	—	**2.25**	1.95	3.45	—	—	—	**1.50**
Tobacco Tax (¢/cigarette)	6.64	**7.00**	6.68	**8.00**	4.83	4.76	**9.38**	6.80	**9.00**	6.78
Health Care Premiums ($)	744	**624**	—	—	—	—	—	—	—	—
Sales Tax [6]	6.00	—	7.00	**7.00**	8.00	8.00	**11.00**	10.00	**10.00**	12.00
Diesel Fuel (¢/l) [7]	11.18	**9.00**	10.00	**10.90**	10.90	8.60	**13.70**	16.20	**12.40**	15.60
Gasoline (¢/l) [7]	10.74	**9.00**	10.00	**10.50**	11.30	10.00	**12.70**	13.70	12.30	13.70

— Not applicable

All figures are percentages unless otherwise indicated.

Provinces in bold have presented 1991 Budgets.

1 Quebec has its own provincially administered personal income tax system. All other provinces' personal income taxes are collected and administered by the federal government. Rates shown are percentage of Basic Federal Tax.

2 British Columbia, Alberta, Saskatchewan, Manitoba and Ontario provide tax reductions at low income levels.

3 Manitoba and Saskatchewan assess the flat tax on "net income" and Alberta assesses the flat tax on "taxable income".

4 Some provinces, including Manitoba, have special reductions for new small business corporations.

5 Capital tax in Manitoba has a 0.2% surtax on taxable paid-up capital in excess of $10 million.

6 Retail Sales Tax refers to general rate only.

7 Petroleum taxes are for regular gasoline and for diesel fuel. British Columbia, Nova Scotia, Prince Edward Island and Newfoundland rates include *ad valorem* taxes, which are adjusted periodically depending on pump market prices. Figures for Quebec exclude estimated Quebec Goods and Services Tax of 4.7¢/l. for regular gasoline and 4.5¢/l. for diesel fuel.

1991 Intercity Comparison of Annual Personal Costs and Taxes

Family of Four at $40,000 Total Income

	Vancouver	Edmonton	Regina	Winnipeg	Toronto	Montreal	Halifax
Net Provincial Income Tax [1]	2,817	2,744	3,535	**3,195**	2,899	3,377	3,255
Property Tax [2]	1,860	1,811	1,657	**2,189**	2,203	2,115	1,438
Retail Sales Tax [3]	709	0	1,068	**947**	1,001	1,227	986
Gasoline Tax [4]	275	180	200	**210**	226	200	274
Health Premiums	744	624	0	**0**	0	0	0
Auto Insurance [5]	932	775	628	**659**	966	950	543
Levies	7,337	6,134	7,088	**7,200**	7,295	7,869	6,496
Home Heating [2]	410	450	560	**670**	570	980	1,070
Electricity [6]	534	553	604	**485**	723	509	772
Telephone [7]	195	146	125	**133**	174	162	198
Living Costs	1,139	1,149	1,289	**1,288**	1,467	1,651	2,040

1 Income is sum of earnings and family allowance. The family consists of a taxfiler, dependent spouse, 2 children—1 under age 6, 1 between 12 and 15. Non-refundable credits for CPP and UIC contributions are allowed. Family allowance is adjusted for Alberta and Quebec. Income taxes include surtaxes and are net of tax reductions, refundable sales tax credits/rebates. For Quebec, taxes are reduced by the value of federal tax abatement.

2 Property tax and home heating are from CMHC Affordability Measure, January 1991, which uses averages of starter homes in metropolitan areas.

3 Retail Sales Tax is based on expenditure patterns in Statistics Canada's 1986 Family Expenditure Survey. Saskatchewan and Quebec have harmonized their Retail Sales Tax with the GST. Figures for Regina and Montreal include this adjustment.

4 Gasoline Tax cost is based on the annual consumption of 2,000 litres of regular gasoline at April 1991 rates.

5 Auto insurance premiums are calculated for a male, above 25 years of age, driving a 1990 Chevrolet Cavalier. Coverage includes $500,000 third party liability, $250 collision deductible (Saskatchewan $200, British Columbia $300) and $50 comprehensive deductible (Manitoba $250) as at January 1991.

6 Electricity charges represent an annual bill for 9,000 kW h. Rates are as at April 1, 1991.

7 Telephone charges are for the main telephone in an individual residence as at January 10, 1991.

Budget Paper D

FEDERAL TRANSFER PAYMENTS

FEDERAL TRANSFER PAYMENTS

FEDERAL TRANSFER PAYMENTS

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The Constitutional Commitment

Federal-provincial fiscal relations have evolved dynamically through the decades of Canada's existence. This great degree of active change, a degree of flexibility unique amongst the major nations of the world, has allowed Canada to meet current challenges, to react to the stresses and strains within our Confederation and to develop economic power within the regions of this vast nation while simultaneously building the social programs providing security, well-being and opportunity for all Canadians.

The Canadian commitment to these developments was recognized and strengthened by the amendments to the Canadian Constitution in 1982. Section 36 of the Constitution Act reads as follows:

> (1) Without altering the legislative authority of Parliament or of the provincial legislatures, or the rights of any of them with respect to the exercise of their legislative authority, Parliament and the legislatures, together with the government of Canada and the provincial governments, are committed to
>
> (a) promoting equal opportunities for the well-being of Canadians;
>
> (b) furthering economic development to reduce disparity in opportunities; and
>
> (c) providing essential public services of reasonable quality to all Canadians.
>
> (2) Parliament and the government of Canada are committed to the principle of making equalization payments to ensure that provincial governments have sufficient revenues to provide reasonably comparable levels of public services at reasonably comparable levels of taxation.

These commitments within the Canadian Constitution provide a foundation on which to build the structure of Canadian fiscal federalism. But they must rest on a secure financial basis. A secure financial basis is one that is affordable to Canadian taxpayers. The services we need and want governments to provide must be financed out of current taxes. Reliance on borrowing, as experience tells us, leads to more debt, rising interest costs and even greater difficulty in maintaining services in future.

The Importance of Transfers to Manitoba

Transfer payments are an important part of provincial revenue. As recently as 1980/81 they comprised over 42% of provincial revenue. This paper will explore how a series of unilateral federal measures in the 1980s reduced the growth rate of transfers. Nevertheless, they still provide about one-third of provincial revenue.

The Major Transfer Programs

There are three major federal transfer payment programs developed to give effect to this Canadian constitutional commitment:

- Equalization
- Established Programs Financing (EPF)
- The Canada Assistance Plan (CAP).

Equalization

Equalization payments in Canada are based on a formula which compares the "fiscal capacity" of provinces. Federal payments are made to less wealthy provinces to bring their fiscal capacity to the "equalization standard." This is fundamental to assuring provinces can have competitive tax regimes and quality program regimes supportive of economic development.

A province's fiscal capacity is measured by the per capita yield of virtually all provincial and local government taxes applied at calculated weighted national average tax rates to the provincial tax bases. The equalization standard since 1982 has been the per capita yield of national average tax rates applied to the tax bases of Quebec, Ontario, Manitoba, Saskatchewan and British Columbia—(i.e. the "five-province standard"). Prior to 1982, the standard was an all-province national average, which was higher than the five-province standard.

Equalization entitlements are calculated which would bring each province's fiscal capacity up to the standard. Currently, seven provinces—Saskatchewan, Manitoba, Quebec and the four Atlantic provinces—have measured fiscal capacity which falls below the standard. These provinces are, therefore, eligible for equalization payments from the federal government. With full equalization, these provinces would have 93% of the national average fiscal capacity.

In 1982, the federal government imposed a ceiling constraint or override which reduces actual payments below the amounts calculated to be required. The reduction has reduced payments to recipient provinces by close to $3 billion in the past three fiscal years. The equalization ceiling is a major issue for Manitoba.

Established Programs Financing (EPF)

Federal funding for health and post-secondary education in the 1960s and early 1970s was essentially 50–50 cost-shared. The federal commitment facilitated the development of quality services for all Canadians. Services cost-shared included hospital and diagnostic services, medicare and post-secondary education—including senior matriculation in Manitoba and other provinces without a preparatory or junior college system. In 1976, an amount for extended health care services was added. Also in 1976, the program was altered in significant ways:

- instead of 50–50 cost-sharing of selected services, the program became an unconditional bloc funding arrangement;

- provinces still were obligated to provide programs, and certain health care program "standards" were added with the Canada Health Act in the early 1980s;
- the bloc fund was a per capita amount, equal across the country, which was to grow independently of program costs, in line with growth in the economy as measured by GNP;
- the bloc was comprised of two portions—first, transfer to provinces of 13.5 personal income tax points (tax points on basic federal tax), and of one corporate income tax point—both of which would be equalized in value in a manner consistent with the national equalization formula; and second, a cash transfer consisting of the difference between the total entitlement and the value of the equalized tax points transferred to the province.

In order to accommodate the tax transfer, federal taxes were reduced and provincial taxes were increased.

Many provinces feel that the "tax transfer" portion should not be considered a federal transfer. The tax points are now a part of provincial taxation and federal taxes have been reduced. The tax points do not enter the federal expenditure or deficit accounts except for associated equalization. However, the federal government continues to count the amount generated by these tax points as a transfer payment.

The federal cash transfer provides about 20% of provincial health and higher education expenditure (expenditure as defined in 1981 by federal-provincial consensus definitions). The cash plus tax totals provide under 40%. Each of these portions has continued to fall as the federal government restricts its payments under the EPF formula.

The formula for calculation of total EPF entitlements has been unilaterally altered by the federal government no less than six times in the last decade. The total entitlement (including the tax transfer) is now frozen on a per capita basis. As the value of the tax points grows while the total entitlement stagnates, the federal cash payments fall. Under current arrangements, the federal cash payments will ultimately disappear.

The Canada Assistance Plan (CAP)

Under the Canada Assistance Plan, the federal government cost-shares with the provinces, on a fifty-fifty basis, the costs of eligible income maintenance and social service programs delivered by the provinces.

Operating as a somewhat open-ended arrangement, federal payments reflect the program costs of provincial governments which in turn are determined by need of the provincial population and the ability of provincial governments to provide funding. The highest per capita payment is received by Quebec which receives a portion of its CAP revenue in the form of a tax transfer. British Columbia and Alberta receive the next highest per capita payments.

In order to limit growth in payments to wealthier provinces, the federal government imposed a 5% growth ceiling on CAP payments to the three provinces which do not receive equalization payments, beginning in 1990/91, and without the notice required in the legislation governing the plan. This precipitous federal action has been successfully challenged in the courts in British Columbia, a decision now being appealed by the federal government.

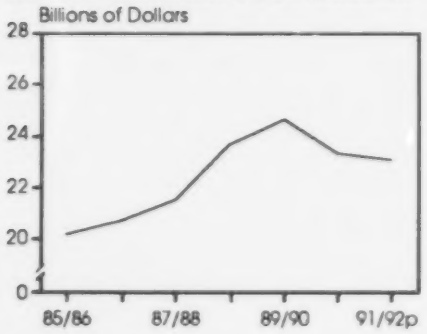
Recent Trends in Financing and the 1991 Federal Budget

The entire decade of the 1980s was punctuated by poor federal-provincial fiscal relations. A series of unilaterally imposed federal measures reduced the commitments of the federal government to provide major transfer payments to provinces at levels determined by formulae which assured more adequate support for the major social programs provided by the provinces.

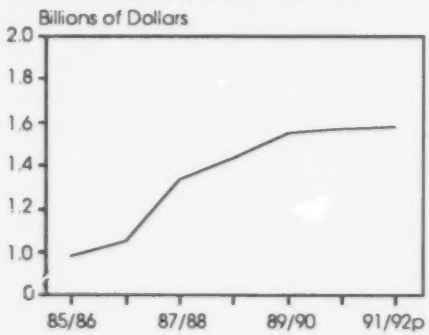
The result was that first, the rate of growth of federal cash transfers fell below the rate of economic growth, then below the rate of inflation, and now is actually declining, even in nominal terms. The 1991 federal Budget measures, if implemented as outlined, would restrain payments again in 1991/92 below the level in 1989/90, and would further restrict cash transfers through the mid-1990s to rates below economic growth, below inflationary growth and would continue the stagnation in nominal terms.

Total Federal Transfers, Major Programs

Federal Transfers to all Provinces



Federal Transfers to Manitoba

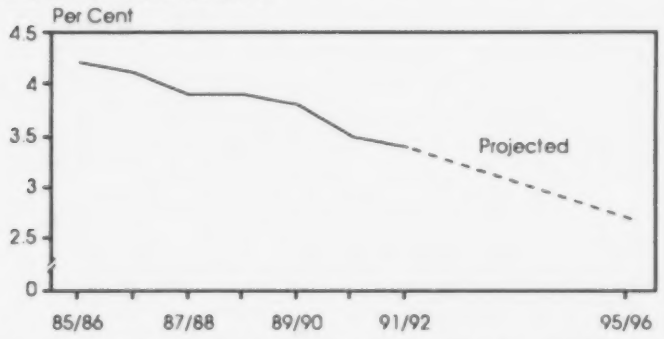


p - Projected

Source: 1990 and 1991 federal Budgets, federal Finance Estimates and Manitoba Public Accounts

The declining federal commitment is dramatic when major transfer payments are shown in comparison to the fundamental basis of support which is the nation's economic capacity.

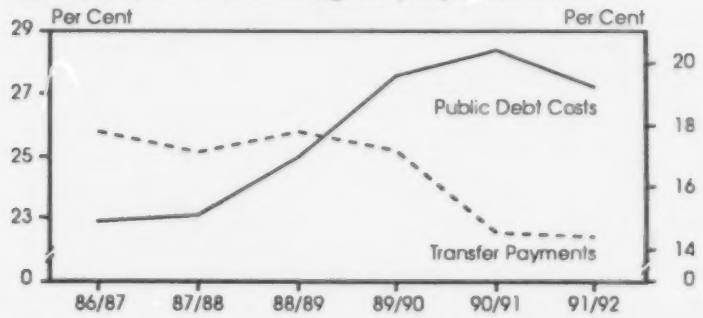
Total Federal Transfers, Major Programs
As a Per Cent of GDP



Source: Federal Budgets to 1992/93. Further extrapolation based on federal Budget estimates of GDP growth and Budget proposals with respect to transfer payments

The provinces recognize that the federal government has been struggling with a large debt and deficit problem. Provinces have encouraged the federal government to deal with that problem. Certainly, provinces recognize that the continuation of large deficits has resulted in a greater proportion of the federal expenditure being diverted to public debt charges. However, *in the past five years since 1986/87, 80% of the increased cost of carrying the national public debt has simply been offloaded onto the provinces through cuts to transfer programs.* While public debt charges have increased by 4.3 points, from 22.9 points to 27.2 points of total federal budgetary expenditure, major transfers to provinces have fallen by 3.4 points, from 17.8 points to 14.4 points of total federal budgetary expenditure. When other offloading, with respect to agriculture, RCMP, aboriginal people, and so forth are added to the balance, fully 100% of increased federal public debt costs have been offloaded to provinces.

Increased Federal Public Debt Costs/ Transfer Payment Cuts
As a Per Cent of Total Budgetary Expenditure



Left scale: Public Debt Costs Right scale: Transfer Payments

Source: Federal Budgets

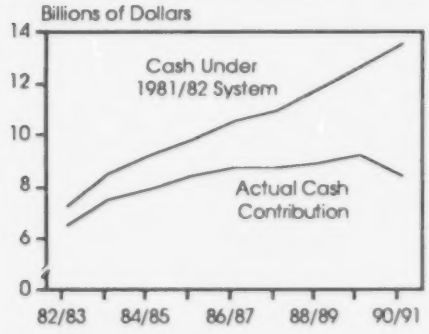
This federal offloading does not reduce the national deficit problem, but simply transfers it to provincial governments and provincial taxpayers where it has to be dealt with on a less equitable basis.

Established Programs Financing

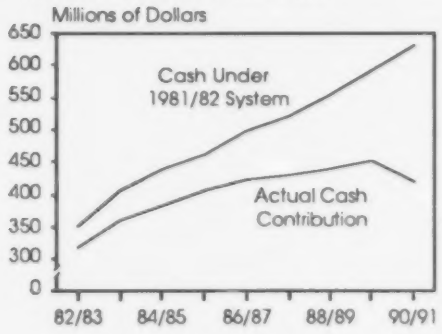
Federal-provincial negotiations in 1976 led to an agreement under which 50–50 cost-sharing was ended and replaced by a new formula for federal contributions. This formula was fairly simple in concept. The total EPF entitlement (that is, the value of new income taxes raised by the provinces through the tax transfer plus federal cash payments) would rise from 1976 levels, in keeping with economic growth. Therefore, the assistance provided by the formula would be fixed as a proportion of the nation's economic base, and would no longer match actual public expenditure growth. Provinces gained additional flexibility in dealing with health and post-secondary education cost pressures at the expense of a more limited and predictable federal contribution. Both orders of government considered this to be a fair arrangement.

Established Programs Financing

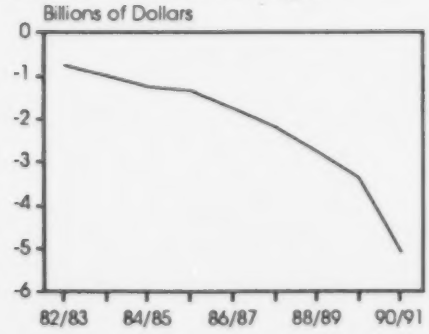
Total EPF Cash 1981 Formula Entitlements



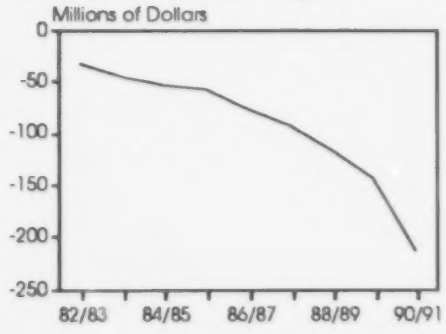
Manitoba EPF Cash 1981 Formula Entitlements



Reduction in Federal Commitments due to Formula Changes



Losses to Manitoba due to Formula Changes



Source: The federal Department of Finance

However, in the 1980s, the federal government unilaterally implemented a series of cuts in the EPF funding mechanism, and in 1990, froze the per capita transfers.

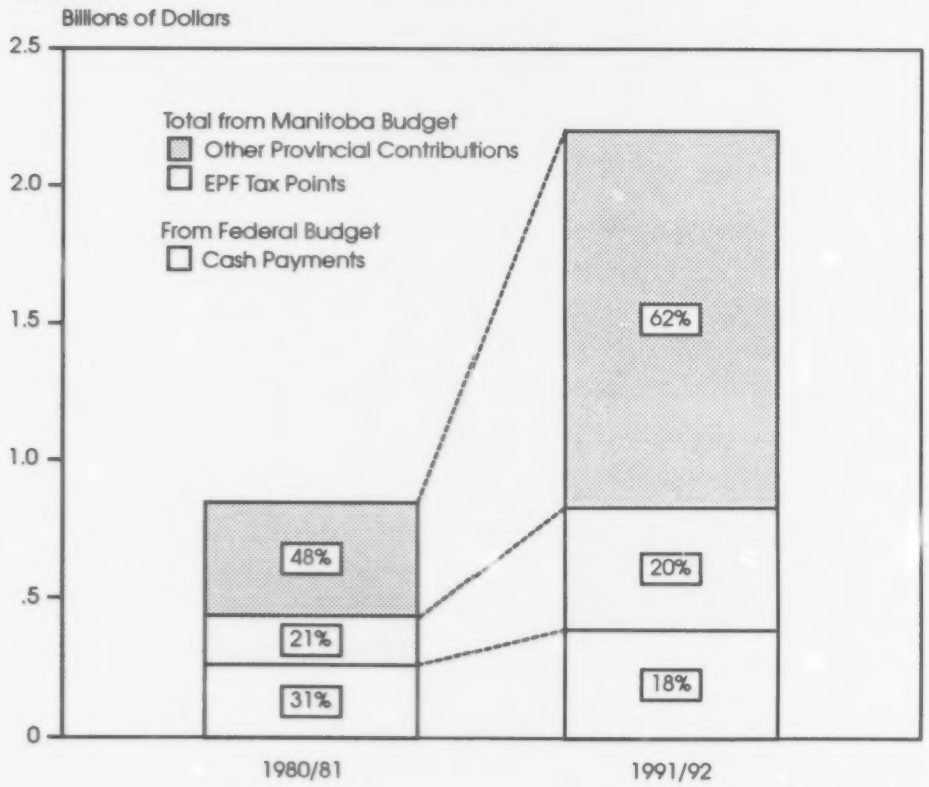
The reduction of the federal government's EPF commitments is very large, totalling $18 billion through 1990/91 (close to $5 billion in 1990/91 alone.) The cost to Manitoba has already reached $800 million (close to $200 million in 1990/91 alone.)

The magnitude of EPF reductions, which are equal per capita across the country, is serious. The reductions are significantly eroding federal support for health and higher education.

The federal support for health and higher education has declined across the country. In Manitoba, the federal cash will constitute about 18% of Manitoba expenditure in 1991/92, as compared with over 31% in 1980/81. The cash plus value of the tax points transferred has dropped from 52% in 1980/81 to about 38% in 1991/92.

Financing Health and Higher Education, Manitoba, 1980/81 and 1991/92

By Source



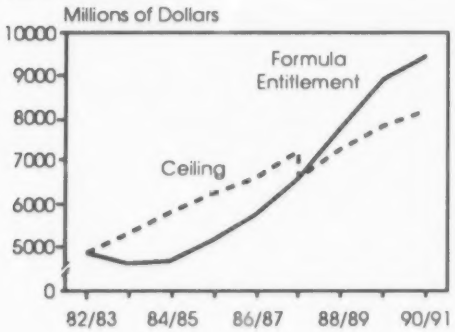
Equalization

More disconcerting to Manitoba is the effect of the ceiling on equalization payments, which affects only less wealthy provinces. This ceiling was lowered in 1987 despite powerful arguments that the ceiling should be removed.

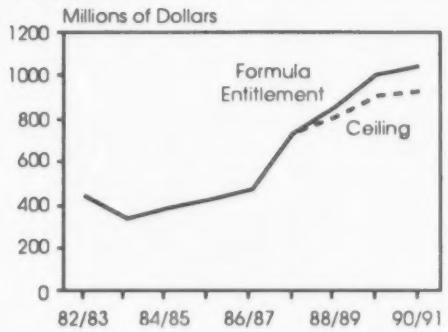
As the federal government constrained its contributions to major provincial programs, and offloaded other programming, the predictable result was that provinces would be forced to raise more revenue from their own sources. Provinces increased taxes and constrained spending in other areas to maintain health and other priority programs. As this occured, equalization entitlements under the existing formula grew faster, to ensure less wealthy provinces could afford to provide their citizens with nationally comparable programs while holding their taxes to competitive levels.

Equalization

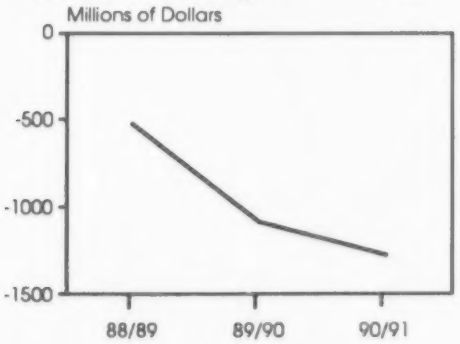
Equalization Entitlements All Provinces



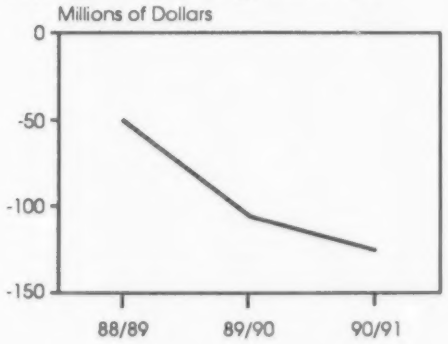
Equalization Entitlements Manitoba



Reductions from Entitlements due to Equalization Ceiling, All Provinces



Reductions from Entitlements due to Equalization Ceiling, Manitoba



Source: The federal Department of Finance

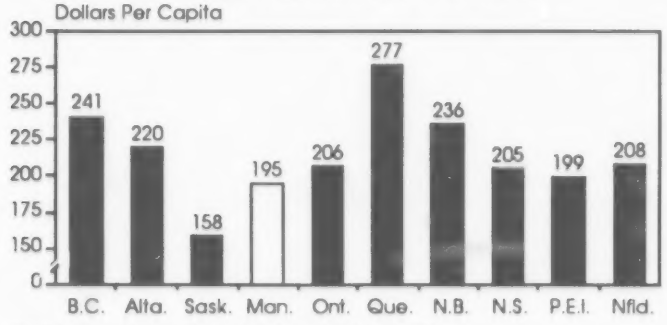
The ceiling has reduced actual payments under the equalization program to levels below entitlements, the first time less wealthy provinces have been so targeted. The reductions are large—$0.5 billion for 1988/89, $1.1 billion for 1989/90 and $1.3 billion for 1990/91 from entitlements generated by the equalization formula. For Manitoba, the reductions have been $52 million in 1988/89, $106 million in 1989/90 and $12 million in 1990/91.

These reductions affect only the less wealthy provinces in Canada. They come on top of the effects of other transfer payment reductions and offloading in other areas. The equalization ceiling is creating conditions which force fiscal disparities to be translated into program disparities and/or loss of tax competitiveness in those provinces which were to be protected by the constitutional commitment to equalization.

The Canada Assistance Plan

The Canada Assistance Plan provides cost-sharing payments which, on a per capita basis, are highest in Quebec, followed by British Columbia, New Brunswick and Alberta. Manitoba received the second-lowest per capita payment in 1990/91. Though the distribution differs between social allowances and social services, the overall payment total is clearly unfavorable to our province compared to most others. Between 1988/89 and 1990/91, Newfoundland and Ontario received the highest per capita growth in their Canada Assistance Plan transfers, reinforcing the pattern that either areas with high unemployment or exceptional fiscal ability were the major beneficiaries of Canada Assistance Plan transfers.

Canada Assistance Plan
1990/91 Per Capita Payments to Provinces



Source: The federal Department of Finance, February 1991

1991/92 Federal Transfer Payments to Manitoba

Actual payments of federal transfers to provinces consist of estimated entitlements for the current fiscal year plus or minus adjustments in respect of revised estimates for prior fiscal years. These "prior years' adjustments" can result in some difficulty in determining underlying patterns of growth for transfer payments.

Reliance on current federal estimates of entitlements for information may also result in some difficulty because the regulations surrounding the development of federal estimates place great reliance on information from previous years. As an example, federal advance payments of corporate income tax to Manitoba for the 1989 tax year exceeded by $65 million the amount which was actually assessed in 1990 for the 1989 and prior tax years. This resulted in a reduction of corporate income tax revenue for Manitoba in 1990/91, but resulted in some offsetting equalization entitlement increases in 1990/91.

A second example of federal estimates missing the mark is with respect to the equalization ceiling. In their first estimate for 1990/91, the federal government estimated the cost to provinces at a relatively low $67 million (and the cost to Manitoba at under $7 million). Manitoba was concerned the cost to this province alone could exceed $100 million. *The most recent federal estimates for equalization entitlements for the 1990/91 fiscal year show the effect of the ceiling at $1.24 billion nationally, and the cost to Manitoba at $121 million.*

For 1991/92, both federal and provincial estimates of major federal transfer growth indicate the following underlying trends:

Equalization	Up $30 – $35 million
EPF Cash	Down $20 – $30 million
Canada Assistance Plan	Up $10 – $12 million[1]

The net result is that underlying growth is now estimated in the area of 1%. Comparisons either on a budget-to-budget basis or on a budget-to-actual basis will be distorted by the effects of actual and estimated prior years' adjustments.

Estimates of federal transfer payments are subject to a greater probability of variance than most provincial revenues. In the case of EPF, the final figure is the result of factors including the value of personal and corporate income tax revenue. In the case of equalization, national economic growth, variations in growth in the estimated tax bases of all provinces, and revenue decisions of all provincial governments play a role. However, because of the nature of equalization, and the inclusion of income tax points within the EPF formula, changes in estimated revenue from Manitoba sources tend to be offset by changes in transfers, resulting in total revenue estimates being more accurate than estimates of the components of revenue.

[1] Federal offloading of social assistance to off-reserve Indians could result in 50% recoveries under the Canada Assistance Plan.

Despite these uncertainties with respect to short-term estimates of federal transfer payments, the trends are clear. If the 1991 federal Budget measures are retained, total federal transfer payments will show little or no growth through the mid-1990s. Canada Assistance Plan payments to non-equalization recipient provinces will be constrained, and equalization-recipient provinces will not have revenue growth to support increased assistance programs. EPF cash payments for health and higher education will continue to fall. Equalization will be restrained.

Negotiating Federal-Provincial Fiscal Arrangements

Reform of the current system of federal transfer payments—with its trends and consequences as outlined earlier—is under consideration. The 1991 federal Budget stated:

> The federal government will consider reforms to the major transfer programs within the fiscal framework set out in this budget. We want to ensure that, in the future, the system of transfers:
>
> - provides for the sharing of the opportunities and benefits of Confederation;
> - supports a more efficient and competitive Canada; and
> - maintains the principles and standards that are the basis of Canadian citizenship while respecting provincial flexibility.
>
> All Canadians have a stake in these reforms, and we will be considering how best to seek their views.
>
> Discussions on the updating and renewal of the Equalization program are already well under way, and will be carried forward as an integral part of this broader process.

The discussions on federal-provincial fiscal arrangements will take place in a charged atmosphere:

- there is constitutional uncertainty and the potential for secession of Quebec;
- the federal debt and deficit problems remain, and Canada is experiencing a worsening of provincial-local fiscal balances (i.e. the deficits of provincial governments, municipal governments, schools and hospitals);
- slow revenue growth in both orders of government harms the ability to smoothly accommodate change;
- the recession is cutting revenue growth for both federal and provincial governments, while provincial revenues are being further damaged by unilateral federal reductions in transfer payment growth and offloading.

There are also significant time constraints. The equalization legislation must be renewed by April 1, 1992. The federal government appears set to introduce a new Canada Health Act with inappropriately negative connotations, rather than acting positively and in concert with the provinces to meet the health care challenge. The court challenge to the limits on Canada Assistance Plan payments to provinces not in receipt of equalization has had initial success, but is now being appealed by the federal government.

Within this environment, federal and provincial governments will meet to discuss technical issues pertaining to programs, to gain further understanding of the perspectives of each participant, and to seek agreement on a set of fiscal arrangements.

Finance Ministers from the federal and provincial governments will have the major responsibility for these negotiations. Supported by working groups of officials, Finance Ministers expect to meet several times over the next twelve months to discuss fiscal arrangements. The first of these meetings is scheduled for June. It is worthwhile noting that the Quebec Minister of Finance has been a full and active participant in meetings of federal and provincial Finance Ministers, and Manitoba welcomes Quebec's continued participation.

First Ministers will also play a major role. Though the Prime Minister has not called a First Ministers' Conference since the failure of Meech Lake, most provinces believe such conferences are necessary to deal with major issues within Canada. Certainly, fiscal arrangements fall into that category, and whether approached as a separate topic or as a part of more basic restructuring of the nation, First Ministers will ultimately participate in the process of negotiations on fiscal arrangements.

The Premier of Manitoba will also be using other opportunities to consider these issues. The first of these is the Western Premiers' Conference now scheduled for May 13 and 14 in Nipawin, Saskatchewan. Premiers have asked for an update on last year's Western Finance Ministers Reports, which will address such issues as tax collections, transfer payments, and the recent federal Budget.

The Manitoba Position

On Equalization:

Manitoba believes that equalization is of the most fundamental importance.

Payment of equalization to those provinces with lesser fiscal capacity to raise revenue from their own tax base is essential to maintaining tax competitiveness, which is key to attracting and maintaining industries and jobs in our province. It is equally important to ensuring comparable government services are available across Canada.

Manitoba believes that an artificial equalization ceiling is in fundamental contradiction to the objectives and underlying constitutional commitments to equalization. The Government is giving active consideration to a court challenge to the present program, with its ceiling constraint, based on this fundamental contradiction.

In addition to working toward the removal of the ceiling, Manitoba:

- will seek to ensure a high standard for equalization which will serve to reduce disparities, such that the principle of comparability contained in Section 36(2) is upheld; and
- will seek to protect the integrity of the program through technical improvements to the formulae which measure disparities in fiscal capacity.

On Established Programs Financing:

Health and education are top priorities of the Manitoba Government despite the declining federal cash transfers for health and higher education. The assurance of integrity in the public health care system, and quality of post-secondary education opportunities, rests primarily upon the commitment of the provincial government to provide the best affordable service. In this regard, the adequacy of the equalization program is clearly of great importance.

Federal funding directed toward health and post-secondary education is useful in ensuring high quality across the country. Manitoba does not believe that the federal government performs a useful function by proclaiming support for standards while simultaneously announcing further reductions to their funding. Manitoba would welcome the federal government as an active partner both in financing and in controlling costs and to ensure the future affordability of these services. We believe that Canadians want to preserve the quality of these essential programs and that the federal government should act accordingly and change its priorities so that federal funding will be maintained.

On the Canada Assistance Plan:

The Canada Assistance Plan has many virtues. It supports those most in need. It provides financing for programs which are counter-cyclical. Thus, it smooths the economic cycle while providing support to those experiencing the effects of economic hard times. Because the Canada Assistance Plan is the last major open-ended, shared-cost program, increased federal support has been automatic when shareable provincial expenditures increase — a fact that can be extremely important when recessionary pressures affect provincial revenues.

However, Manitoba has some concerns. As noted earlier, per capita payments to Manitoba under CAP were the second-lowest in Canada in 1990/91. They are correspondingly low in some of the Atlantic provinces where need would appear to be high, but the affordability of the provincial share is difficult.

This raises the question whether cost-sharing is the most effective form of support, and in particular whether federal funds are being spent equitably when larger payments are made to wealthier provinces less in need of cost-sharing assistance. In the past, it has also been argued that cost-sharing can distort expenditure priorities.

It might be noted that the federal decision to apply a 5% growth cap on Canada Assistance Plan payments to the three provinces not in receipt of equalization has turned the program away from a cost-sharing to a per capita entitlement formulation for over 50% of the Canadian population. However, these entitlements vary by province, depending on patterns of cost-sharing in 1989/90. As well, the fact that Quebec receives some CAP support in the form of tax points, rather than cash, further detracts from the concept of CAP as a pure cost-sharing program.

Manitoba joined in a successful court challenge of the 5% growth cap and is awaiting a Supreme Court decision on an appeal. However, in its most recent Budget, the federal government extended the cap through 1994/95. Recently as well, the federal government has advised provinces of its intention to cease supporting social assistance for Indians living off reserves. Finally, the federal government is expected to announce measures in the coming months to fulfill its commitment to introduce new child care arrangements — arrangements which might affect existing CAP cost-sharing for these services.

In these circumstances, Manitoba believes that a review of the financing of social assistance may be appropriate at this time. A comprehensive assessment of financing has not been carried out since the federal-provincial Social Security Review in the mid-1970s. In our view, an updated review should not be limited to simply a question of whether federal transfers for social assistance should consist of cost-sharing, or some other formula for payments to provinces. A broad range of alternatives should be considered, with the ultimate objective of assuring these important programs have adequate, equitable and reliable ongoing support, in all provinces and regions.

In particular, given the primary federal responsibility for the economy, for employment, and for unemployment insurance, considering that recent estimates suggest that a significant portion of income for families on assistance takes the form of federal tax credits, and adding to that the fact that more than 50% of some social services in Manitoba are serving people of aboriginal origin who have an historic tie to the federal government, it may be appropriate to consider whether social assistance should become fully a federal responsibility. A constitutional amendment to give effect to such a transfer of responsibility is not unprecedented. Indeed, the British North America Act was amended with respect to Unemployment Insurance in 1940, and with respect to Old Age Security in 1952. Both of these amendments gave the federal government more responsibility for income insurance programs.

Conclusion

Federal offloading is adding to pressure on Manitoba's expenditure, while reductions in entitlements from major federal transfer programs are restraining Manitoba's revenue growth.

Manitoba recognizes that there is a significant problem in Canada caused by ongoing public sector deficits and rising public debt costs. However, the solution lies in co-operation, in cost containment and in setting appropriate priorities, not shifting the burden indiscriminately, especially to provinces less able to compensate for lost revenue.

Federal-provincial fiscal relations must respect the constitutional provisions with respect to equal opportunity for the well-being of all Canadians, economic development which reduces disparity in opportunity, and the provision of essential public services of reasonably comparable quality to all Canadians.

The Government of Manitoba recognizes that the division of constitutional responsibilities requires commitments to the provision of these services from the provinces. Provinces can only deliver on these commitments to the degree that they have adequate and comparable revenue, and to the degree that services remain affordable.

Equalization is essential to ensure national comparability of services and competitive taxation in all provinces. The equalization ceiling is inconsistent with the supporting constitutional principle. The Manitoba government is exploring a legal challenge against this provision.

Negotiations are under way on renewal of major fiscal arrangements. These negotiations are perhaps the most important on these issues in several decades.

As negotiations proceed, Manitobans will be kept informed of proposals which have been under active consideration, and of the implications to the Province of Manitoba.